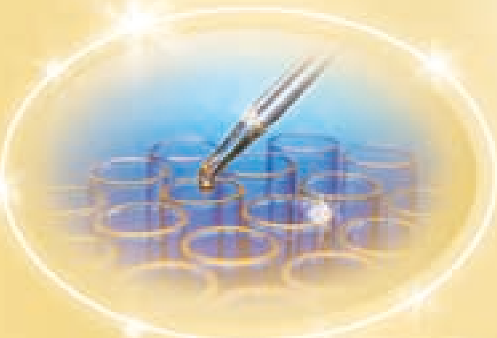
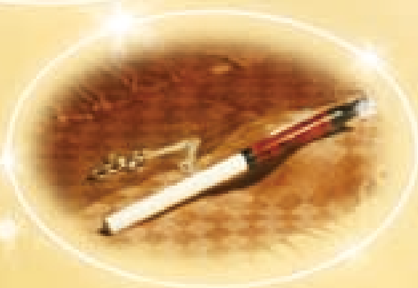
Ruyan Group (Holdings) Limited

如烟集團（控股）有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 329)





Annual Report 2007

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Corporate Information

EXECUTIVE DIRECTORS

Mr. Wong Yin Sen
Mr. Hon Lik
Mr. Wong Hei Lin
Mr. Li Kim Hung

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Pang Hong
Mr. Cheung Kwan Hung
Mr. Ding Xun

AUDIT COMMITTEE

Mr. Pang Hong
Mr. Cheung Kwan Hung
Mr. Ding Xun

COMPANY SECRETARY

Mr. Li Kim Hung

SOLICITORS

Tung & Co, Hong Kong
Commerce & Finance Law Office,
The People's Republic of China

AUDITORS

Deloitte Touche Tohmatsu

REGISTERED OFFICE

Certury Yard
Cricket Square Hutchins Drive,
P.O. Box 2681 GT
George Town
Grand Cayman
Cayman Islands
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE HONG KONG SPECIAL ADMINISTRATIVE REGION OF THE PEOPLE'S REPUBLIC OF CHINA ("HONG KONG")

Rooms 1010-12, 10th Floor
West Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited
P.O. Box 705
Butterfield House
Fort Street, George Town
Grand Cayman
Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

in Hong Kong:
The Hong Kong and Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Limited

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

WEBSITE

www.ruyangroup.com

STOCK CODE

329

Chairman's Statement

On behalf of the board of directors (the "Board") of Ruyan Group (Holdings) Limited (the "Company"), I am pleased to present this Annual Report for the year ended 31 December 2007 (the "Year") of the Company and its subsidiaries (the "Group").

RESULTS FOR THE YEAR 2007

For the Year, the audited consolidated profit attributable to shareholders of the Company amounted to HK$34,239,000, representing a decrease of approximately 58.38% over HK$82,266,000 for the year 2006. On this basis, the earnings per share of the Company for the Year was approximately HK$1.79 cents (corresponding period in 2006: approximately HK$3.92 cents).

For the Year, the Group achieved sales income of HK$275,382,000, representing a decrease of 31.64% from the turnover of HK$402,851,000 for the year 2006. Of which, the sales income of health care products, pharmaceuticals products and electronic cigarette components was HK$94,896,000, HK$44,922,000 and HK$135,564,000 respectively.

PROSPECTS FOR THE YEAR 2008

Since the incorporation of Ruyan electronic cigarettes business from the first half of 2007, the Group has been committed to diversifying its business and increasing its capital contribution. After the fund raising activities in the third quarter of 2007, the Group has actively injected more funds and started to improve its products with a view to developing new models and expanding new markets. The Group believes the efforts paid in the second half of 2007 will bring long-term development and revenue to the Group.

For 2008 onwards, the Group has planned to actively enhance the diversified development of the 3 main businesses, namely, electronic cigarettes, health care products and pharmaceutical products, by leveraging its own conditions, experience and resources so as to improve the quality of products, develop new models and enter into the international markets.

DIVIDENDS

No interim dividend was declared for the Year. The Board does not recommend the payment of any final dividend for the year ended 31 December 2007 (2006: nil).

ACKNOWLEDGEMENTS

On behalf of the Board, I would like to express my sincere gratitude to our customers, suppliers and shareholders. My deep appreciation and thankfulness goes to all members of our staff, in particular to my fellow directors and the management, for their continuous support to the Group's development in previous year. This is the first year since the merger of Golden Dragon Group (Holdings) Limited and Ruyan-SBT's operation. We have full confidence that the merger of health care products, parametrical products and electronic cigarette products will bring greater returns for our investors in the years ahead.

On behalf of the Board

Wong Yin Sen
Chairman

Hong Kong, 21 April, 2008

Management Discussion and Analysis

BUSINESS PERFORMANCE CONDITIONS

BUSINESS REVIEW

In 2007, the health care products and pharmaceutical products market became more vigorous with foreign health care products entering China and the increasing number of categories of health care products of domestic brands. Sales of the more technological blended type new products increased while old products such as traditional Chinese medicines represented a declining trend. Faced with consumers with different demands, the Group added new products with four specifications which provide higher add-on value. Three new markets were explored while the single mode of supermarket terminal sales in the past was changed and attempts were made to market new products through direct sales on TV to strive to turn the declining sales trend in recent consecutive years.

RUYAN atomizing cigarettes have entered several foreign markets since 2006. In 2007, further progress was made in market entry in key markets, and sales were achieved throughout the year. Selecting business partners and developing sales channels continue to be the top priority for international business. In the past few months, new partnerships were initiated for all of North America, for the United Kingdom and Ireland. International product testing for both safety and efficacy is nearing completion under the guidance of respected international experts and laboratories.

PRODUCT DEVELOPMENT

In 2007, the procedures for review and approval of new products by the State Food and Drug Administration were basically frozen. Among the ten products of the Company under application, five categories are under resumption of review and approval and supplementary stage, and the information is compiled and ready for submission. Other products are under review and approval.

As for electronic cigarette products, the “V8” Model, which is more resembling the appearance of traditional cigarettes, was the key product for 2007. But at the same time, newer models were actively developed such as the disposable “Ruyan No. 1” which is estimated to be launched in the market in early 2008.

REGIONAL DEVELOPMENT

In 2007, while the Group’s health products had maintained the existing sales in the market, the new markets in three provinces, namely Shaanxi, Shanxi and Gansu were explored. The business scope covered part of the provinces in western part of China and laid a foundation for the Company’s next step in regional development. The mode of direct sales on TV was adopted in Guangdong region and certain effects on sales were obtained.

In 2007, the regional coverage of pharmaceutical products was far greater than that in 2006. For instance, the sales in Guangdong region alone increased from RMB300,000/year originally to RMB1,200,000/year. The sales market coverage over provinces throughout the state exceeded 90%, expanding from the original single clinical sales to the over-the-counter (OTC) market. In Liaoning, three major chain OTC channels were explored, including Liaoning Baicheng Xinteyao Chain, Chengda Fangyuan Pharmaceutical Company Chain and Sifang Pharmaceutical Chain, with the principle to fully develop and explore sales channel both clinically and with OTC.

As for electronic cigarette products, after securing the domestic market, the overseas market was actively developed. In terms of Europe, following Turkey, Israel and Romania, more Euro markets were explored.

Management Discussion and Analysis

PROSPECTS FOR THE YEAR 2008 AND DEVELOPMENT PLAN

Following the overall recovery of the health care products market in China, the launch of new products in the health care products market is accelerating. The new electronic physio-therapeutical products which carry three functions will be projected in the market in 2008. Apart from developing new markets continuously, the Group is going to expand regions that conduct sales activities by means of direct sales. It is anticipated that sales of health care products will grow at a steady pace annually.

In 2008, in terms of the state-wide development of the pharmaceutical market, clinics, OTC and the third terminal will be the key developing targets. Regarding clinics, independent operating institutes will be set up in five provinces in the state to manage the market. Large chains will be outstretched in other provinces for OTC. As for the third terminal, trial sales for products including Azithromycin Granules and Hai Te Ling Capsules (咳特靈膠囊) will be conducted throughout the state. It is anticipated that the sales for this item alone will increase by more than RMB1,000,000. Clinical-wise, the State Category 1 New Drug Piglydetone and the technologically patented Azithromycin will be put in trials and be launched in the five key provinces in the state by flexible operations and a combination of modes of sales.

Although regulatory obstacles to full market-entry for new product category make difficulty to Ruyan electronic cigarettes and its would-be competitors, Ruyan remains pro-active with respect to its positioning and acceptance by governments and the public alike. Ruyan is on-track to continue opening key markets with strong partners and innovative new products throughout 2008. The America version of the Company's new and highly simulative electronic cigarettes, will make its debut in Las Vegas in late April 2008. The Europe, Middle East, Africa and Asia Pacific version of the same product, will also be launched in May 2008. Other key products will follow by the early 2nd-half of 2008.

LIQUIDITY AND FINANCIAL ANALYSIS

As at 31 December 2007, bank loans of the Group amounted to HK$23.5 million, representing a decrease of HK$22.3 million as compared to the total outstanding bank loans as at 31 December 2006, all of which were short-term loans due within one year and part of which were loans in Renminbi. Since movements of Renminbi against other currencies, in particular the Hong Kong dollar, were more stable, the directors of the Company (the "Directors") do not anticipate to face any major currency exposures, therefore the Group has not arranged any currency hedge.

During the Year, an amount of HK$2.7 million was paid as aggregate interest of bank loans (2006: HK$3.8 million). The Group did not use property as securities for such bank facilities, nor the use of any financial instruments for hedging purposes.

Gearing ratio of the Group reduced from approximately 27.8% as at 31 December 2006 to approximately 27.4% as at 31 December 2007. This calculation is based on total borrowings of approximately HK$168.3 million (2006: HK$99.6 million) and shareholders fund of approximately HK$604.8 million (2006: HK$363.5 million).

As at 31 December 2007, the balance of the inventories amounted to HK$209 million, representing an increase of HK$27 million when compared with previous year.

Management Discussion and Analysis

DETAILS OF MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

On 13 February 2007, a sale and purchase agreement was entered into between, inter alia, Ability Act Investments Limited ("AAI"), the shareholding of which was owned as to 60.50% by Dragon Concept and Wealthy Well, a wholly owned subsidiary of the Company, for the acquisition of the entire issued share capital of Best Partners Worldwide Limited (currently known as SBT Investments Holding Limited) for a consideration of RMB1,273,608,000 (the "Acquisition") and settled by the issue of a convertible note convertible into shares of the Company (the "Shares") at the conversion price of HK$1.80 per Share (subject to adjustment). The completion of the Acquisition took place on 14 June 2007. Details of the Acquisition are set out in the announcements of the Company dated 19 March 2007, 3 April 2007, 3 May 2007, 18 May 2007 and 18 June 2007 and the circular of the Company dated 21 May 2007. Finally, all outstanding convertible note issued under this subject was converted on 23 October 2007 and the number of issued shares of the Company became 1,513,360,000.

CHARGE OF ASSETS

As at 31 December 2007, the Group had no bank deposits pledged to banks to secure banking facilities granted to its subsidiaries (2006: nil).

CONTINGENT LIABILITIES

As at 31 December 2007, the Group did not provide any form of guarantees for any outside companies and was not liable to any material legal proceedings of which provision for contingent liabilities was required.

EMPLOYEE POLICY

After completion of the Acquisition, the Group employs a total of about one thousand five hundred employees in the PRC and Hong Kong (around 50% higher than the corresponding period last year).

The Group believes that talents are the core competitive capacity of an enterprise. Whoever holds talents, whoever wins in the game. The Group carries out operating activities based on the four visions namely selecting people, nurturing people, employing people and retaining people.

Selecting people: Talents who are best in technology are selected. The most excellent talents are selected among the graduates every year to take part in the Group. Those who are suitable will be retained as resource backup for the Group.

Nurturing people: The Group believes that training delivered to staff is the best fringe benefit for them. The Group delivers training to all staff and every individual has his/her own work target. The unfamiliar staff are trained and guided by supervisors. Staff above intermediary level of the Group will participate in external training on a regular basis to enrich themselves.

Employing people: The Group employs people reasonably and allows staff to reveal their strengths voluntarily so that the talents of people are fully utilised and resources are fully used. Cost is controlled at its minimal level by corporate culture.

Retaining people: Retaining people is the key to a company's sustainable growth. To this end, the Group formulated a series of incentive mechanism. Technical staff follow the "reward by parts system" based on their strength. Management officers above intermediary level follow the annual appraisal and bonus system. Staff ranking front are rewarded and the maximum amount can reach double of the year end pay. As for sales staff, their performance correlates with their reward and the "no upper limit" policy is employed. As such, a culture is fostered in the enterprise which enables the staff to feel like part of the enterprise and establishes a fair ground for competition.

Corporate Governance Report

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

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

THE BOARD

The Board comprises of four executive Directors, namely, Mr. Wong Yin Sen, Mr. Hon Lik, Mr. Wong Hei Lin and Mr. Li Kim Hung with Mr. Wong Yin Sen acting as the chairman of the Board and three independent non-executive Directors, namely, Mr. Pang Hong, Mr. Cheung Kwan Hung, Anthony and Mr. Ding Xun. To the best knowledge of the Company, save as the four executive Directors have interest in the ultimate holding company of Beijing SBT Ruyan Technology Development Company Limited, there is no financial, business, family or other material/relevant relationship between the Directors.

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

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

The biographies of the Directors are set out in pages 13 to 14, which demonstrate a diversity of skills, expertise, experience and qualifications.

Moreover, the Board informally meets on a regular basis to discuss the daily operation issue of the Company. For those non-executive and independent non-executive Directors are not personally present in the Company's principal place of business in Hong Kong, conference call is used by the Company to actively take advice from them.

APPOINTMENT OF DIRECTORS

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

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

APPOINTMENT OF DIRECTORS-CONTINUED

The independent non-executive Directors also play important role in the Board. They provide the Board with independent judgment on issues of strategic direction and future development; opinion on connected transactions and risk management on audit issues. One of the independent non-executive Directors is a qualified accountant in Hong Kong and the rest of them satisfy the requirement of the Listing Rules. The Board has received annual confirmation in respect of the independence of each of the independent non-executive Directors and considers that their independence is in compliance with the Listing Rules during the Year.

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

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

The Company has received annual confirmation of independence from three independent non-executive Directors in accordance with rule 3.13 of the Listing Rules. The Board has assessed their independence and concluded that all the independent non-executive directors are independent within the ambit of the requirement of the Listing Rules.

BOARD MEETINGS

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

Details of Directors' attendance at Board meetings held in 2007 are as follows:

Executive Directors

Mr. Wong Yin Sen	10/10
Mr. Hon Lik	6/10
Mr. Wong Hei Lin	6/10
Mr. Li Kim Hung	10/10

Non-executive Director

Ms. Cheng Kong Yin (Note)	3/10

Independent non-executive Directors

Mr. Pang Hong	5/10
Mr. Cheung Kwan Hung, Anthony	6/10
Mr. Ding Xun	6/10

Note: Ms. Cheng Kong Yin resigned as a non-executive Director on 28 May 2007.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. After making specific enquiries with the Directors, the Company has received the confirmations from each of the Directors confirming that he/she has complied with the required standard of dealings set out in the Model Code for the Year.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

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

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

COMMITTEES

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

AUDIT COMMITTEE

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

Mr. Cheung Kwan Hung, Anthony *(Chairman)*
Mr. Pang Hong
Mr. Ding Xun

Corporate Governance Report

AUDIT COMMITTEE-CONTINUED

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

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

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

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

REMUNERATION COMMITTEE

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

Mr. Pang Hong *(Chairman)*
Mr. Cheung Kwan Hung, Anthony
Mr. Ding Xun

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

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

For the Year, the Remuneration Committee held one meeting and the attendance record of the meeting is shown below.

ATTENDANCE RECORD AT BOARD COMMITTEE MEETINGS

The following table shows the attendance of Directors at Board Committee meetings during the Year:

	Number of meeting attended/ Number of meeting held	
Directors	**Remuneration Committee**	**Audit Committee**
Independent non-Executive Directors		
Mr. Pang Hong	1/1	2/2
Mr. Cheung Kwan Hung, Anthony	1/1	2/2
Mr. Ding Xun	1/1	1/2

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

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

INVESTOR RELATIONSHIP AND COMMUNICATION

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

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

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

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

- Price sensitive information is disclosed to the public by way of announcement as required by the Listing Rules Enquiries and suggestions from shareholders of the Company or investors are welcome through the following channels to the company secretary of the Company:

  - by mail to the Company's principal place of business in Hong Kong at Rooms 1010-12, 10th Floor, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong

  - by telephone at telephone number (852) 2858 4999

  - by fax at fax number (852) 2547 9221

  - by email at ili@ruyangroup.com

Corporate Governance Report

ACCOUNTABILITY AND AUDIT

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

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

The Group's external auditors are Deloitte Touche Tohmatsu for the Year and they will hold office until the forthcoming annual general meeting of the Company. The annual consolidated financial statements of the Group for the Year have been audited by Deloitte Touche Tohmatsu. The statement of the auditors about their responsibilities on the Group's financial statements is set out in the Independent Auditor's Report on page 23.

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

For the Year, the fees of the external auditors of the Group for audit services amounted to HK$2,271,000 and for non-audit services amounted to HK$300,000.

INTERNAL CONTROL

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

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

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

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

Directors and Senior Management Profile

DIRECTORS

Executive Directors

Mr. Wong Yin Sen, aged 55, is one of the co-founders of the Group and the Chairman and President of the Group. Mr. Wong is familiar with the commercial, political and social situations in the PRC and has over 22 years of experience in operating enterprises with business in the PRC. After settling down in Hong Kong in 1992, he established and invested in the Group. Mr. Wong has accumulated abundant knowledge in the medical and health care product industry and extensive experience in enterprise management.

Mr. Hon Lik, aged 52, is a senior pharmacist and one of the co-founders of the Group and Chief Executive Officer of the Group. Mr. Hon graduated from Liaoning College of Traditional Chinese Medicine in 1982 and started to work in Liaoning Academy of Traditional Chinese Medicine in the same year. Mr. Hon was promoted to the position of vice-superintendent of Liaoning Academy of Traditional Chinese Medicine in 1990, and was responsible for the technology development. Mr. Hon has approximately 22 years of experience in the medical field and invented and patented the technology used in Chenlong Baoling Longevity Ginseng products.

Mr. Wong Hei Lin, aged 53, is an economist and one of the co-founders of the Group and is the Vice-President of the Group. Mr. Wong started to work in Liaoning Academy of Traditional Chinese Medicine in 1978. Mr. Wong was promoted to the position of Factory Director of Academy of Traditional Chinese Medicine's honeybee product factory in 1982, responsible for developing the honeybee health products. In 1984, Mr. Wong organised and set up Liaoning Academy of Traditional Chinese Medicine's Pharmaceutical Factory and became the Factory Director for sales. In 1989, Mr. Wong further organised and set up Liaoning Yunda Health Product Co. Ltd. and became the Chairman of the board of directors. Mr. Wong has over 24 years of experience in the health care product industry. Mr. Wong holds a diploma of professional management from Shenyang United Workers' University.

Mr. Li Kim Hung, aged 51, has been appointed as the company secretary and is also the Group's financial controller, responsible for the Group's financial planning and monitoring. He is a member of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants, the Hong Kong Institute of Chartered Secretaries and the Associate of the Institute of Chartered Secretaries and Administrators. Prior to joining the Group in August 2000, Mr. Li has worked as the financial controller for various companies in Hong Kong for more than 12 years.

Independent Non-executive Directors

Mr. Pang Hong, aged 54, worked for around 22 years in enterprises and government departments in the PRC. After studying for 3 years in the United States, Mr. Pang came to Hong Kong for his career development. Mr. Pang is familiar with the investment environment in the PRC and has rich experience in the management of PRC companies. Mr. Pang was previously an executive director of Pacmos Technologies Holdings Limited (formerly known as PCL Enterprises Holdings Limited) which is listed on the Stock Exchange. He is currently involved in private management consultancy. He is also currently an independent non-executive director of each of SMI Corporation Limited and M Channel Corporation Limited which are listed on the Stock Exchange. Mr. Pang was appointed as an independent non-executive Director on 17 January 2001.

Mr. Cheung Kwan Hung, Anthony, aged 57, is a professional accountant. Mr. Cheung holds a high diploma in accountancy from the Hong Kong Polytechnic University. Mr. Cheung is currently a fellow member of the Association of Chartered Certified Accountants, and also the associate member of Hong Kong Institute of Certified Public Accountants. Mr. Cheung was taking the management and supervisory director role in the investment banking field and has accumulated over 22 years' experience in the financial market. He is currently involved in the private financial consultancy business. Mr. Cheung was appointed as an independent non-executive Director on 20 September 2004.

Directors and Senior Management Profile

DIRECTORS-CONTINUED

Independent Non-executive Directors-continued

Mr. Ding Xun, aged 47, holds a Bachelor Degree of Economics and a MBA certification from Maritime Transportation University of Shanghai and Beijing University respectively. Mr. Ding worked in The Waterway Transportation Institute of the Ministry of Communications of China and Guangdong Enterprises (Holdings) Limited. He was also a director of Guangdong Investment Limited and the vice-chairman of Guangdong Brewery Holdings Limited. Besides, he has extensive experience in corporate development, and has over 16 years of experience in Commercial Management sector and familiar with Economics and Financial structure and investment environment in PRC and Hong Kong. He is currently an Independent Non-Executive Director of Shenzhen International Holdings Limited, being a company listed on the Stock Exchange of Hong Kong Limited. Mr. Ding was appointed as an independent non-executive Director on 27 July 2006.

SENIOR MANAGEMENT OF THE GROUP

Mr. Min Nam is an executive director of Ruyan Group's subsidiary company in Hong Kong. He has over 14 years of experience in the field of financial investment and corporate management. Mr. Miu holds a PhD Degree in system engineering from Electronics Institute of the Chinese Academy of Science and a Masters Degree in electronic Engineering from Beijing University of Aeronautics and Astronautics; He is currently responsible for the Group's international cooperation and capital market development and operation.

Mr. Scott Fraser is the Vice President of Ruyan Group's subsidiary company in Hong Kong. Mr. Fraser holds Masters Degree in Business Administration from University of California at Berkeley, Haas School of Business. He has over 18 years sales and marketing working experience in various multinational cooperation in the PRC and the U.S., including in Intel China Limited as the marketing manager, and in Motorola Asia/Pacific Limited as Retail Channel Marketing Manager. He is currently responsible for the Group's international market and sales development.

Mr. Song Xiao Hai is the Vice President of Ruyan Group's subsidiary company in Beijing. Mr. Song obtained his Master Degree in management from the Central South University of Technology. He was the General Manager of the International Finance Division, China Agricultural Development and Trust Investment Corporation and Senior Deputy President of Hong Kong Citic Ka Wah Bank Limited. Mr. Song has over 12 years of experience in financial investment and corporate management. He is currently responsible for the company internal control governance and coordinated in the government community policy.

Mr. Yu Li is the Vice President of Ruyan Group's subsidiary company in Beijing. Mr. Yu obtained a degree from Shenyang Industrial University as a qualified engineer. He joined the Group in October 1993, mainly responsible for the Group's domestic market promotion and sales planning.

Mr. Fu Hai Jing has been appointed as an internal control supervisor, responsible for financial planning, administration and internal control management. Mr. Fu graduated from the business and accounting department of the Radio and TV University of Shenyang. Prior to joining the Group, Mr. Fu had worked in a number of enterprises. He has accumulated years of experience in management, operation and administration. Mr. Fu joined the Group in 1996.

Directors' Report

The directors present their annual report and the audited consolidated financial statements for the Year.

CHANGE OF NAME

Pursuant to the passing of the resolution for changing the name of the Company by the Shareholders on 20 November, 2007, the name of the Company has been changed from Golden Dragon Group (Holdings) Limited to Ruyan Group (Holdings) Limited.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of the Company's principal subsidiaries are set out in note 38 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December, 2007 are set out in the consolidated income statement on page 24.

The directors do not recommend the payment of a dividend and propose that the profit for the Year be retained.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Year are set out in note 17 to the consolidated financial statements.

SHARE CAPITAL

Details of movements during the Year in the Company's share capital are set out in note 30 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distributions to shareholders as at 31 December, 2007 represent the share premium, contributed surplus and accumulated losses with a net aggregate amount of approximately HK$1,211,235,000 (2006: HK$118,795,000).

Directors' Report

DIRECTORS

The Directors of the Company during the Year and up to the date of this report were:

Executive directors:

Mr. Wong Yin Sen *(Chairman)*
Mr. Hon Lik *(Chief Executive Officer)*
Mr. Wong Hei Lin
Mr. Li Kim Hung

Non-executive director:

Ms. Cheng Kong Yin (resigned on 28 May, 2007)

Independent non-executive directors:

Mr. Pang Hong
Mr. Cheung Kwan Hung
Mr. Ding Xun

In accordance with Articles 87 and 88 of the Company's Articles of Association, Messrs. Li Kim Hung, Hon Lik and Pang Hong shall retire by rotation and, being eligible, offer themselves for re-election.

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

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December, 2007, the interests of the Directors and their associates in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") in the Listing Rules, were as follows:

Interests in the ordinary shares of HK$0.10 each of the Company

Name of director	Capacity	Number of issued ordinary shares of the Company *(Note 1)*	Approximate Percentage of the issued share capital of the Company
Mr. Wong Yin Sen	Interest of a controlled corporation	825,406,000 (L) *(Note 2)*	54.54%
		351,200,000 (S) *(Note 3)*	23.21%
Mr. Hon Lik	Interest of a controlled corporation	825,406,000 (L) *(Note 2)*	54.54%
		351,200,000 (S) *(Note 3)*	23.21%
Mr. Wong Hei Lin	Interest of a controlled corporation	825,406,000 (L) *(Note 2)*	54.54%
		351,200,000 (S) *(Note 3)*	23.21%
Mr. Li Kim Hung	Beneficial owner *(Note 4)*	220,000(L)	0.01%

Notes:

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

(2) The 825,406,000 shares comprise 437,406,000 shares held by Ability Act Investments Limited and 388,000,000 shares held by Absolute Target Limited. Absolute Target Limited is owned as to 46.25% by Mr. Wong Yin Sen, 42.50% by Mr. Hon Lik and 11.25% by Mr. Wong Hei Lin. Ability Act Investments Limited is owned as to 4.75% by Goldtools Investments Limited which is wholly owned by Mr. Wong Hei Lin and 90.5% by Dragon Concept Investments Limited which is owned as to 52.11% and 47.89% by Mr. Wong Yin Sen and Mr. Hon Lik respectively.

(3) The 351,200,000 shares are held by Absolute Target Limited, which in turn is owned as to 46.25% by Mr. Wong Yin Sen, 42.50% by Mr. Hon Lik and 11.25% by Mr. Wong Hei Lin.

(4) Mr. Li Kim Hung is beneficially interested in 4.75% of Ability Act Investments Limited. Ability Act Investments Limited holds 437,406,000 shares in the Company, which represent 28.90% of the entire issued shares in the Company.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES-CONTINUED

Long positions in the shares of associated corporation of the Company

Name of director	Name of associated corporation	Number of shares held	Approximate percentage of shareholding
Mr. Wong Yin Sen	Dragon Concept Investments Limited	5,211	52.11%
Mr. Hon Lik	Dragon Concept Investments Limited	4,789	47.89%
Mr. Wong Yin Sen	Absolute Target Limited	4,625	46.25%
Mr. Hon Lik	Absolute Target Limited	4,250	42.50%
Mr. Wong Hei Lin	Absolute Target Limited	1,125	11.25%

Save as disclosed above, as at 31 December, 2007, none of the Directors nor their associates had any interests or short positions in any shares and underlying shares of the Company or any of its associated corporations as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

PLACING OF SHARES AND TOP-UP SUBSCRIPTION FOR NEW SHARES AND SUBSCRIPTION OF CONVERTIBLE NOTES

Pursuant to a placing and subscription agreement dated 3 July 2007 entered into among Smart Huge Group Limited, the Company and BOCI Asia Limited, 105,000,000 ordinary shares of HK$0.10 each (the "Placing Shares") were placed to investors at a price of HK$1.38 per Placing Share, and Smart Huge Group Limited subscribed for 105,000,000 ordinary shares of HK$0.10 each (the "Top-Up Subscription Shares") at a price of HK$1.38 per Top-Up Subscription Share. BOCI Asia Limited placed the Placing Shares to not less than six placees, each of whom or its ultimate beneficial owner are third parties independent of the Company and its connected persons.

The price for both the Placing Shares and Top-up Subscription Shares, being HK$1.38 per share, representing a discount of about 6.76% to the closing price as quoted on the Stock Exchange on the date of the placing and subscription agreement. The net price of Placing Share was HK$1.29 per Placing Share.

Pursuant to a subscription agreement dated 3 July 2007 entered into between the Company and BOCI Asia Limited, the Company issued convertible notes in the aggregate principal sum of HK$151,000,000, which upon full conversion at the conversion price of HK$1.59 per share amounting to the issue of 94,968,553 shares, on 31 July 2007 with a maturity date on 31 July 2012 (the "Maturity Date"). The convertible notes are unsecured and bear an interest rate of 2.5% per annum payable semi-annually in arrear. The convertible notes entitle the noteholders to convert them into ordinary shares of the Company at any time from the issuance of the convertible notes until 10 business days prior to the Maturity Date at an initial conversion price of HK$1.59 per share (subject to adjustment). The conversion price will be subject to adjustment for, among other things, subdivision or consolidation of shares, bonus issues, rights issues and other events which have dilution effects on the issued share capital of the Company. If the convertible notes have not been converted, they will be redeemed at 162.6088% of the principal amount of the convertible notes on the Maturity Date. To the best of the knowledge, information and belief of the Directors, each of the noteholders and their respective ultimate beneficial owners are independent third parties.

The total net proceeds from the placing of shares and top-up subscription for new shares and the issue of convertible notes as mentioned above amounted to approximately HK$277 million after expenses and would be used as to (i) approximately HK$85 million for the expansion of the production facilities of the Company; (ii) approximately HK$110 million for market research and development of new markets for healthcare products, including electronic cigarettes, and pharmaceutical products; (iii) approximately HK$30 million for the research and development of healthcare products, including electronic cigarettes, and pharmaceutical products; and (iv) approximately HK$59 million as the Group's general working capital.

SHARE OPTION SCHEME

In accordance with the terms of the share option scheme, the Board is authorised, at its absolute discretion, to grant options to the participants, including executive Directors and its subsidiaries, to subscribe for shares in the Company. Options granted may be exercised at any time during the five-year period commencing on the date on which the option is accepted and expire on the last day of the five-year period.

As at 31 December 2007, no options have been granted to any participants nor outstanding under the Company's share option scheme.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

MANAGEMENT CONTRACTS

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

SUBSTANTIAL SHAREHOLDERS

So far as is known to the Directors, as at 31 December, 2007, the persons or companies (other than Directors or chief executive) who had interests or short positions in the shares or underlying shares of the Company which fall to be disclosed to the Company under Part XV of the SFO, or which were recorded in the register of substantial shareholders required to be kept by the Company under section 336 of the SFO were as follows:

Interest in the ordinary shares of HK$0.10 each of the Company

Name	Capacity	Number of shares of the Company *(Note 1)*	Approximate Percentage of shareholding
Absolute Target Limited *(Note 2)*	Beneficial Owner	388,000,000 (L) 351,200,000 (S)	25.64% 23.21%
Ability Act Investments Limited *(Note 3)*	Interest of controlled corporation	437,406,000 (L)	28.90%
Central SAFE Investments Limited *(Note 4)*	Interest of controlled corporation Person having a security interest in shares	28,301,886(L) 175,600,000 (L)	1.87% 11.60%
Evolution Capital Management, LLC *(Note 5)*	Investment manager Person having a security interest in shares	67,603,773 (L) 175,600,000 (L)	4.47% 11.60%
Evolution Master Fund Ltd. SPC, Segregated Portfolio M *(Note 5)*	Beneficial owner Person having a security interest in shares	67,603,773 (L) 175,600,000 (L)	4.47% 11.60%

Notes:

1. "L" denotes long position and "S" denotes short position.
2. Absolute Target Limited is owned as to 46.25%, 42.50% and 11.25% by Mr. Wong Yin Sen, Mr. Hon Lik and Mr. Wong Hei Lin respectively.
3. Ability Act Investments Limited is owned as to 4.75% by Goldtools Investments Limited which is wholly owned by Mr. Wong Hei Lin, 4.75% by Success Glory Group Limited which is wholly owned by Mr. Li Kim Hung, and 90.5% by Dragon Concept Investments Limited which is owned as to 52.11% and 47.89% by Mr. Wong Yin Sen and Mr. Hon Lik respectively.
4. Pursuant to the corporate substantial shareholder notice filed by Central SAFE Investments Limited on 31 October 2007, the interest in an aggregate of 203,901,886 shares were directly held by BOCI Financial Products Limited which was a wholly owned subsidiary of BOC International Holdings Limited, a wholly owned subsidiary of Bank of China Limited. Central SAFE Investments Limited was interested in 67.5% shareholding of Bank of China Limited.
5. As at 31 December 2007, Evolution Capital Management, LLC and Evolution Master Fund Ltd. SPC, Segregated Portfolio M were interested in the same block of an aggregate of 243,203,773 shares.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December, 2007.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 7 to 12.

EMOLUMENT POLICY

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

The emoluments of the Directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

PRE-EMPTIVE RIGHTS

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

MAJOR SUPPLIERS AND CUSTOMERS

During the Year, the largest supplier of the Group by itself and together with the next four largest suppliers accounted for about 15% and 64%, respectively, of the Group's purchases.

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

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

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

During the year ended 31 December 2007, the Company has not redeemed any of its listed securities. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed shares during the year ended 31 December 2007.

Directors' Report

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December, 2007.

AUDITOR

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

On behalf of the Board

Mr. Wong Yin Sen
Chairman

Hong Kong
21 April, 2008

Independent Auditor's Report

Deloitte.
德勤

TO THE SHAREHOLDERS OF RUYAN GROUP (HOLDINGS) LIMITED
如烟集團(控股)有限公司
(Formerly known as Golden Dragon Group (Holdings) Limited
金龍集團(控股)有限公司)
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Ruyan Group (Holdings) Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 24 to 65, which comprise the consolidated balance sheet as at 31 December, 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December, 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
21 April, 2008

Consolidated Income Statement

For the year ended 31 December 2007

	NOTES	2007 HK$'000	2006 HK$'000 (restated)
Turnover	8 & 9	**275,382**	402,851
Cost of goods sold		**(89,763)**	(122,901)
Gross profit		**185,619**	279,950
Other income		**19,945**	1,159
Change in fair value of derivative financial instruments		**3,080**	–
Change in fair value of held-for-trading investments		**127**	–
Distribution costs		**(94,478)**	(143,331)
Administrative expenses		**(61,800)**	(47,354)
Finance costs	10	**(13,759)**	(6,135)
Profit before tax		**38,734**	84,289
Income tax expense	11	**(4,495)**	(2,023)
Profit for the year	12	**34,239**	82,266
Attributable to:			
Equity holders of the parent		**26,116**	51,894
Minority interests		**8,123**	30,372
		34,239	82,266
Dividends recognised as distribution	15	**–**	25,000
Earnings per share			
Basic	16	**HK1.79 cents**	HK3.92 cents

Consolidated Balance Sheet

At 31 December, 2007

	NOTES	2007 HK$'000	2006 HK$'000 (restated)
Non-current assets			
Property, plant and equipment	17	**61,473**	58,205
Goodwill	18	**3,934**	3,934
Available-for-sales investments	19	**–**	–
Intangible assets	20	**2,743**	3,968
Prepaid lease payments	21	**26,427**	24,950
		94,577	91,057
Current assets			
Inventories	22	**208,867**	235,958
Trade receivables	23	**161,736**	122,308
Deposits, prepayments and other receivables	24	**58,194**	78,533
Prepaid lease payments	21	**571**	527
Held-for-trading investments	25	**266**	–
Bank balances and cash	26	**361,316**	76,222
		790,950	513,548
Current liabilities			
Trade payables	27	**16,948**	25,811
Accruals and other payables	27	**63,554**	76,620
Derivative financial instruments	29	**29,940**	–
Borrowings	28	**30,913**	61,392
Taxation payable		**1,998**	1,262
		143,353	165,085
Net current assets		**647,597**	348,463
Total assets less current liabilities		**742,174**	439,520
Non-current liabilities			
Borrowings due after one year	28	**17,617**	38,218
Convertible Bonds	29	**119,740**	–
		137,357	38,218
		604,817	401,302
Capital and reserves			
Share capital	30	**151,336**	70,080
Reserves		**453,481**	293,454
Equity attributable to equity holders of the parent		**604,817**	363,534
Minority interests		**–**	37,768
		604,817	401,302

The financial statements on pages 28 to 65 were approved and authorised for issue by the Board of Directors on 21 April, 2008 and are signed on its behalf by:

DIRECTOR

DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December, 2007

	Attributable to equity holders of the parent											
	Share capital *HK$'000*	Share premium account *HK$'000*	Shareholders' contribution *HK$'000* *(note a)*	Issuable shares *HK$'000* *(note c)*	Translation reserve *HK$'000*	Non-distributable reserves *HK$'000* *(note b)*	Merger reserves *HK$'000* *(note d)*	Special reserves *HK$'000*	Accumulated profits *HK$'000*	Attributable to equity holders of the Company *HK$'000*	Minority interests *HK$'000*	Total *HK$'000*
At 1 January, 2006, as originally stated	58,400	12,779	–	–	8,607	24,032	–	3,142	120,208	227,168	–	227,168
Effect of the Acquisition	–	–	21,780	–	(10)	696	47	–	2,639	25,152	16,421	41,573
At 1 January, 2006, as restated	58,400	12,779	21,780	–	8,597	24,728	47	3,142	122,847	252,320	16,421	268,741
Exchange differences on translation and net income recognised directly in equity	–	–	–	–	10,196	9	–	–	–	10,205	850	11,055
Profit for the year	–	–	–	–	–	–	–	–	51,894	51,894	30,372	82,266
Total recognised income for the year	–	–	–	–	10,196	9	–	–	51,894	62,099	31,222	93,321
Shares issued	11,680	52,560	–	–	–	–	–	–	–	64,240	–	64,240
Dividend paid	–	–	–	–	–	–	–	–	(15,125)	(15,125)	(9,875)	(25,000)
At 31 December, 2006, as restated	70,080	65,339	21,780	–	18,793	24,737	47	3,142	159,616	363,534	37,768	401,302
Exchange differences on translation and net income recognised directly in equity	–	–	–	–	33,625	–	–	–	–	33,625	–	33,625
Profit for the period	–	–	–	–	–	–	–	–	26,116	26,116	8,123	34,239
Total recognised income for the period	–	–	–	–	33,625	–	–	–	26,116	59,741	8,123	67,864
Acquired from minority interests upon the completion of the Acquisition	–	–	–	–	–	–	45,891	–	–	45,891	(45,891)	–
Issue of Convertible Notes	–	–	–	976,433	–	–	(1,062,676)	–	–	(86,243)	–	(86,243)
Issue of new shares upon the conversion of Convertible Notes	70,756	992,443	–	(976,433)	–	–	–	–	–	86,766	–	86,766
Placing of shares	10,500	134,400	–	–	–	–	–	–	–	144,900	–	144,900
Transaction cost attributable to the issue of shares	–	(9,772)	–	–	–	–	–	–	–	(9,772)	–	(9,772)
At 31 December, 2007	**151,336**	**1,182,410**	**21,780**	**–**	**52,418**	**24,737**	**(1,016,738)**	**3,142**	**185,732**	**604,817**	**–**	**604,817**

Notes:

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

(b) The non-distributable reserve represents statutory reserves appropriated from profit after tax of the Company's PRC subsidiary under the PRC laws and regulations.

(c) Details of issuable shares are set out in note 31.

(d) The merger reserve represents (i) the share capital of SBT (see Note 1 to the consolidated financial statements) beneficially owned by Mr. Wong Yin Sen and Mr. Hon Lik, (ii) the carrying amount of equity interest in SBT held by the non-controlling parties and (iii) the fair value of the consideration paid to Ability Act Investments Limited ("AAI") for the Acquisition.

Consolidated Cash Flow Statement

For the year ended 31 December, 2007

	2007 HK$'000	2006 HK$'000 (restated)
OPERATING ACTIVITIES		
Profit before tax	**38,734**	84,289
Adjustments for:		
Depreciation of property, plant and equipment	**6,551**	3,972
Amortisation of prepaid lease payments	**554**	216
Amortisation of intangible assets	**1,474**	1,590
Allowance for inventory obsolescence	**4,500**	–
Write back of allowance for bad and doubtful debts	**(2,800)**	–
Fortfeiture of a customer's deposit	**(14,893)**	–
Finance costs	**13,759**	6,135
Change in fair value of derivative financial instruments	**(3,080)**	–
Change in fair value of held for trading investments	**(127)**	–
Interest income	**(4,927)**	(858)
Transaction costs paid in connection with the embedded derivatives	**1,892**	–
Loss on disposal of property, plant and equipment	**997**	–
Operating cash flows before movements in working capital	**42,634**	95,344
Decrease (increase) in inventories	**40,118**	(110,698)
Increase in trade receivables	**(27,543)**	(6,706)
Decrease (increase) in deposits and other receivable	**41,065**	(15,699)
Increase in held-for-trading investments	**(139)**	–
(Decrease) increase in trade payables	**(10,780)**	3,120
(Decrease) increase in accruals and other payables	**(18,757)**	9,075
Decrease in amounts due to directors	**–**	(3,128)
Cash generated from (used in) operations	**66,598**	(28,692)
Interest received	**4,927**	858
Interest paid	**(4,204)**	(6,135)
PRC income tax paid	**(3,853)**	(2,200)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	**63,468**	(36,169)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(6,733)**	(28,356)
Proceeds on disposal of property, plant and equipment	**172**	–
Addition of prepaid lease payments	**–**	(23,006)
NET CASH USED IN INVESTING ACTIVITIES	**(6,561)**	(51,362)
FINANCING ACTIVITIES		
Repayments of bank borrowings	**(28,095)**	(20,462)
Repayment of other borrowings	**(6,522)**	(8,057)
Repayment of other loans	**(23,862)**	(47,994)
Repayments of obligations under a finance lease	**–**	(164)
Proceeds on issue of ordinary shares	**144,900**	64,240
Transaction costs paid in connection with the issue of shares	**(9,772)**	–
Transaction costs paid in connection with the issue of Convertible Bonds	**(9,164)**	–
Proceeds on issue of Convertible Bonds	**151,000**	–
Borrowings raised	**–**	73,773
Dividends paid	**–**	(25,000)
NET CASH FROM FINANCING ACTIVITIES	**218,485**	36,336
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**275,392**	(51,195)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**76,222**	123,745
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**9,702**	3,672
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH	**361,316**	76,222

Notes to the Consolidated Financial Statements

For the year ended 31 December, 2007

1. GENERAL

The Company was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the introduction to the annual report.

The consolidated financial statements are presented in Hong Kong dollars, whereas the functional currency of the Company is in Renminbi.

As the Company is listed in Hong Kong, the director consider that it is appropriate to present the consolidated financial statements in Hong Kong dollars.

The Company was renamed from Golden Dragon Group (Holdings) Limited to Ruyan Group (Holdings) Limited effective from 20 November, 2007.

The Company acts as an investment holding company. Its subsidiaries are principally engaged in production and sales of a series of health care products, pharmaceutical products and RUYAN atomizing cigarettes.

Pursuant to the sale and purchase agreement dated 13 February, 2007, supplemental agreement dated 30 March, 2007 and second supplementary agreement dated 3 May, 2007, Wealthy Well Investments Limited ("Wealthy Well"), a wholly-owned subsidiary of the Company, agreed to acquire from AAI the entire issued shares of SBT at a total consideration of HK$1,062,676,000 (the "Acquisition") to be satisfied by the issue of convertible notes (the "Convertible Notes").

Mr. Wong Yin Sen and Mr. Hon Lik were interested in 52.11% and 47.89% of the issued share capital of Dragon Concept Investments Limited ("Dragon Concept"), which held 60.5% of the issued share capital of AAI.

The Acquisition constituted a very substantial acquisition pursuant to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), details of which were set out in the circular dated 21 May, 2007 (the "Circular") issued by the Company. The Acquisition was completed on 14 June, 2007.

SBT is a company incorporated in the BVI as an exempted company with limited liability on 1 July, 2003. SBT and its subsidiaries (hereinafter collectively referred to as the "SBT Group") mainly engages in the business of research and development, production and sales of RUYAN atomizing cigarettes.

2. BASIS OF PREPARATION

Immediately before the Acquisition, Mr. Wong Yin Sen and Mr. Hon Lik were interested in 46.25% and 42.50%, respectively, of the issued share capital of Absolute Target, the immediate holding company which held 388,000,000 shares, representing approximately 55.36% of the issued share capital of the Company.

Since the Company and SBT were both collectively controlled by Mr. Wong Yin Sen and Mr. Hon Lik before and after the completion of the Acquisition, the Acquisition was accounted for as a combination of entities under common control.

The Company has accounted for the Acquisition in accordance with the Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") to prepare the consolidated financial statements, assuming that the current group structure had been in existence throughout the periods presented. Accordingly, the prior year figures have been restated.

3. APPLICATION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS")

In the current year, the Group has applied, for the first time, the following new standards, amendment and interpretation ("new HKFRSs") issued by the HKICPA which are effective for Group's financial year beginning 1 January, 2007.

HKAS 1 (Amendment)	Capital disclosures
HKFRS 7	Financial instruments: Disclosures
HK(IFRIC)-INT 7	Applying the restatement approach under HKAS 29 Financial reporting in hyperinflationary economies
HK(IFRIC)-INT 8	Scope of HKFRS 2
HK(IFRIC)-INT 9	Reassessment of embedded derivatives
HK(IFRIC)-INT 10	Interim financial reporting and impairment

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new and revised standards, amendment or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of financial statements [1]
HKAS 23 (Revised)	Borrowing costs [1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements [2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations [1]
HKFRS 3 (Revised)	Business Combinations [2]
HKFRS 8	Operating segments [1]
HK(IFRIC)-Int 11	HKFRS 2: Group and treasury share transactions [3]
HK(IFRIC)-Int 12	Service concession arrangements [4]
HK(IFRIC)-Int 13	Customer loyalty programmes [5]
HK(IFRIC)-Int 14	HKAS 19-The limit on a defined benefit asset, minimum funding requirements and their interaction [4]

1 Effective for accounting periods beginning on or after 1 January 2009.
2 Effective for accounting periods beginning on or after 1 July 2009.
3 Effective for accounting periods beginning on or after 1 March 2007.
4 Effective for accounting periods beginning on or after 1 January 2008.
5 Effective for accounting periods beginning on or after 1 July 2008.

The adoption of HKFRS 3 (revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first accounting reporting period beginning on or after 1 July 2009. HKAS 27 (revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

The directors of the Company anticipate that the application of the other standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Listing Rules and by the Companies Ordinance.

Basis of consolidation

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

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

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

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

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Merger accounting for business combination involving entities under common control

The consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

4. SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Goodwill

Goodwill arising on acquisitions prior to 1 January, 2005

Goodwill arising on an acquisition of net assets and operations of another entity for which the agreement date is before 1 January, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant acquiree at the date of acquisition.

For previously capitalised goodwill arising on acquisitions of subsidiaries after 1 January, 2001, the Group has discontinued amortisation from 1 January, 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

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

Revenue recognition

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

Revenue from sale of goods is recognised when title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

4. SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Leasing

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

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and building

The land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payment can be made reliably, leasehold interests in land are accounted for as operating leases.

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's entities are translated from the functional currency of the respective entities into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

4. SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

Retirement benefits costs

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

Taxation

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

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Intangible assets

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Inventories

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

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

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

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

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

Effective interest method

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

Income is recognised on an effective interest basis for debt instruments.

4. SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Financial instruments-continued

Effective interest method-continued

Financial assets at fair value through profit or loss

Financial assets at FVTPL represent financial assets held for trading.

A financial asset is classified as held for trading if:

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

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Loans and receivables

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

Notes to the Consolidated Financial Statements

For the year ended 31 December, 2007

4. SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Financial instruments-continued

Financial assets-continued

Available-for-sale financial assets

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

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

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

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

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

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Financial instruments-continued

Impairment of financial assets-continued

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

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

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity.

Financial liabilities and equity

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

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

4. SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Financial instruments-continued

Financial liabilities and equity-continued

Other financial liabilities

Other financial liabilities including trade payables, accruals and other payables and borrowings are subsequently measured at amortised cost, using the effective interest rate method.

Convertible bonds contains liability component, early redemption option derivatives and conversion option derivative

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

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

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

Embedded derivatives

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

Equity instruments

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

4. SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Financial instruments-continued

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Impairment losses (other than goodwill)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Key sources of estimation uncertainty

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

Fair value of derivatives and other financial instruments

As described in Note 29, the directors of the Company use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. Financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. The carrying amounts of the financial derivatives are set out in note 29.

6. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group equals to total equity attributable to equity holders of the Company, comprising issued share capital, reserves and accumulated profits.

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

7. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2007	2006
	HK$'000	HK$'000
Financial assets		
Held-for-trading investments	**266**	–
Loans and receivables (including cash and cash equivalents)	**543,208**	277,063
Available-for-sale financial assets	**–**	–
Financial liabilities		
Derivative financial instruments classified as held-for-trading	**29,940**	–
Amortised cost	**225,113**	169,500

7. FINANCIAL INSTRUMENTS-CONTINUED

Financial risk management objectives and polices

The Group's major financial instruments include derivative financial instruments, held-for-trading investments, trade receivables, other receivables, bank balances and cash, trade payables, accruals and other payables, borrowings and Convertible Bonds. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (interest rate risk, currency risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Interest rate risk

For value interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings (see Note 28 for details) and Convertible Bonds (see Note 29 for details) through the impact of market interest rate charges on interest bearing borrowings.

Cash flow interest rate risk

The Group is also exposed to cash flow interest rate risk in relation to the bank balances as well as variable-rate bank borrowings (see Note 28 for details).

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

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the balance sheet date. For variable-rate bank borrowings, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. For bank balances, the analysis is prepared assuming the amount of asset outstanding at the balance sheet date was outstanding for the whole year. A 100 basis point increase or decrease is used which represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's: profit for the year ended 31 December, 2007 would increase/decrease by HK$3,224,000 (2006: decrease/increase by HK$18,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate borrowings and bank balances.

The Group's sensitivity to interest rates has decreased during the current year mainly due to the decrease in variable rate debt instruments.

7. FINANCIAL INSTRUMENTS-CONTINUED

Financial risk management objectives and polices-continued

Credit risk

As at 31 December, 2007, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

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

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

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

Other price risk

The Group is exposed to price risk in respect of the conversion option and early redemption options embedded in the Convertible Bonds which allows the bondholder to convert to the Company's ordinary shares and allow the bondholder and the Group to early redeem the Convertible Bonds.

In management's opinion, the sensitivity analysis are unrepresentative of the inherent marked risk as the pricing model used in the fair value valuation of the conversion option and early redemption options embedded in the Convertible Bonds involves multiple variables and certain variables are interdependent.

Currency risk

The Convertible Bonds and certain bank balances of the Group are denominated in foreign currencies. As at 31 December 2007, as foreign exchange difference of the Convertible Bonds was off-set by that of the bank balances, the net exchange difference and the relevant currency risk exposure was immaterial. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

7. FINANCIAL INSTRUMENTS-CONTINUED

Financial risk management objectives and polices-continued

Liquidity risk-continued

Liquidity risk tables

	Weighted average interest rate %	Less than 1 month HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	1-5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2007 HK$'000
2007							
Non-derivative financial liabilities							
Trade payables	–	16,948	–	–	–	16,948	16,948
Accruals and other payables	–	39,895	–	–	–	39,895	39,895
Borrowings							
– fixed rate	7.5	–	–	10,229	–	10,229	9,630
– variable rate	8.1	780	1,561	20,624	22,342	45,307	38,900
Convertible Bonds (Note)	2.5	1,887	–	1,887	151,000	154,774	149,680
		59,510	1,561	32,740	173,342	267,153	255,053

	Weighted average effective interest rate %	Less than 1 month HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	1-5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2007 HK$'000
2006							
Non-derivative financial liabilities							
Trade payables	–	25,811	–	–	–	25,811	25,811
Accruals and other payables	–	44,079	–	–	–	44,079	44,079
Borrowings							
– fixed rate	6.0	–	–	21,950	–	21,950	20,974
– variable rate	6.8	14,406	1,536	30,425	42,910	89,277	78,636
		84,296	1,536	52,375	42,910	181,117	169,500

Note: As the bondholder will have the right to redeem the Convertible Bonds commencing from year 2009, it is, therefore, assumed to be the earliest date on which the Group will be required to pay.

7. FINANCIAL INSTRUMENTS-CONTINUED

Fair value

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

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

- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input. For an option-based derivative, the fair value is estimated using option pricing model.

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

8. REVENUE

Revenue represents the amounts received and receivable for goods sold net of returns.

9. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into three operating business-production and sales of health care products, pharmaceutical products and Ruyan atomizing cigarettes. These businesses are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

RESULTS

	Health care products		Pharmaceutical products		Ruyan atomizing cigarettes		Total	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000 (restated)
Segment turnover	**94,896**	83,690	**44,922**	33,063	**135,564**	286,098	**275,382**	402,851
Segment result	**2,969**	573	**9,328**	2,011	**39,486**	108,736	**51,783**	111,320
Other income							**19,945**	1,159
Change in fair value of derivative financial instruments							**3,080**	–
Change in fair value of held-for-trading investments							**127**	–
Unallocated corporate expenses							**(22,442)**	(22,055)
Finance costs							**(13,759)**	(6,135)
Profit before tax							**38,734**	84,289
Income tax expense							**(4,495)**	(2,023)
Profit for the year							**34,239**	82,266

9. BUSINESS AND GEOGRAPHICAL SEGMENTS-CONTINUED

Business segments-continued

BALANCE SHEET

	Health care products		Pharmaceutical products		Ruyan atomizing cigarettes		Total	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000 (restated)
Assets								
Segment assets	**182,236**	166,638	**62,412**	35,019	**257,914**	296,867	**502,562**	498,524
Unallocated corporate assets							**382,965**	106,081
Consolidated total assets							**885,527**	604,605
Liabilities								
Segment liabilities	**16,896**	26,186	**17,040**	3,248	**46,566**	68,283	**80,502**	97,717
Unallocated corporate liabilities							**200,208**	105,586
Consolidated total liabilities							**280,710**	203,303

OTHER INFORMATION

	Health care products		Pharmaceutical products		Ruyan atomizing cigarettes		Unallocated		Total	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000 (restated)
Additions of property, plant and equipment	**2,073**	15	**312**	631	**4,331**	27,710	**17**	–	**6,733**	28,356
Depreciation of property, plant and equipment	**1,145**	1,361	**595**	534	**4,808**	1,887	**3**	190	**6,551**	3,972
Amortisation of intangible assets	**–**	–	**1,474**	1,590	**–**	–	**–**	–	**1,474**	1,590
Allowance for inventory obsolescence	**–**	–	**–**	–	**4,500**	–	**–**	–	**4,500**	–
Write back allowance for bad and doubtful debts	**2,800**	–	**–**	–	**–**	–	**–**	–	**2,800**	–
Loss on disposal of property, plant and equipment	**–**	–	**–**	–	**–**	–	**997**	–	**997**	–

Geographical segments

The Group's operations are mainly located in the People's Republic of China (the "PRC"). Also, the segments assets and the revenue of the Group are substantially located/arisen in the PRC. Accordingly, no analysis by geographical segment is presented.

Notes to the Consolidated Financial Statements

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10. FINANCE COSTS

	2007 HK$'000	2006 HK$'000 (restated)
The finance costs represent interests on:		
– bank borrowings wholly repayable within five years	**2,743**	3,782
– other borrowings wholly repayable within five years	**878**	621
– other loans wholly repayable within five years	**583**	1,708
– a finance lease	**–**	24
– Convertible Notes (note 31)	**523**	–
– Convertible Bonds (note 29)	**9,032**	–
	13,759	6,135

11. INCOME TAX EXPENSE

	2007 HK$'000	2006 HK$'000 (restated)
Current tax:		
PRC Enterprise Income Tax	**4,495**	2,023

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

Income tax in the PRC has been provided at the prevailing rates on the estimated assessable profit applicable to each subsidiary in the PRC.

Pursuant to relevant tax rules and regulations in the PRC, Shenyang Jinlong Health Care Products Co., Ltd. ("Shenyang Jinlong")is subjected to PRC Income Tax of 15% and local Income Tax of 3% and Shenyang Chenlong Longerity Ginseng Co., Ltd. ("Shenyang Chenlong") is subjected to PRC Income Tax of 15% tax and local Income Tax of 1.5%.

Pursuant to relevant laws and regulations in the PRC, Beijing SBT Ruyan Technology & Development Co., Ltd. ("Beijing SBT") is subject to PRC income tax of 15% and entitled to an exemption from PRC Income Tax for the two years ended 31 December, 2006, followed by a 50% tax relief for the next three years. Therefore, Beijing SBT was subject to 0% and 7.5% PRC Income tax for the year ended 31 December, 2006 and 31 December, 2007 respectively.

Pursuant to relevant tax rules and regulations in the PRC, certain other subsidiaries are entitled to an exemption from PRC income tax for the two years starting from their first profit-making year, followed by a 50% tax relief for the next three years. The reduced tax rate for the relief period is ranging from 0% to 7.5%. The charge of PRC Income Tax for the year has been provided for after taking these tax incentives into account.

11. INCOME TAX EXPENSE-CONTINUED

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

	2007 HK$'000	2006 HK$'000 (restated)
Profit before taxation	**38,734**	84,289
Tax at PRC income tax rate of 33% (2006: 33%)	**12,782**	27,815
Tax effect of expenses not deductible for tax purpose	**8,625**	3,832
Tax effect of tax losses not recognised	**1,548**	854
Income tax on concessionary rate	**(16,738)**	(26,497)
Effect of tax relief entitled by the Company's subsidiaries	**(1,722)**	(3,981)
Taxation for the year	**4,495**	2,023

At the balance sheet date, the Group has estimated unused tax losses of approximately HK$29,982,000 (2006: HK$25,292,000) available for offset future profits. No provision of deferred taxation has been recognised in respect of the tax losses due to unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

Pursuant to the PRC Enterprise Income Tax Law (the "New Law") passed by the Tenth National People's Congress on 16 March, 2007, the new PRC income tax rates for domestic and foreign enterprises are unified at 25% effective from 1 January, 2008.

No provision for deferred taxation has been recognised in the consolidated financial statements as the amount involved is insignificant.

12. PROFIT FOR THE YEAR

	THE GROUP	
	2007 HK$'000	2006 HK$'000 (restated)
Profit for the year has been arrived at after charging (crediting):		
Staff costs		
Directors' emoluments (note 13)	**6,861**	5,646
Other staff costs		
– salaries, allowances and bonus	**18,543**	25,953
– retirement benefits scheme contributions	**1,584**	2,099
	26,988	33,698
Allowance for inventory obsolescence (included in cost of sales)	**4,500**	–
Amortisation of intangible assets (included in cost of sales)	**1,474**	1,590
Amortisation of prepaid lease payments	**554**	216
Cost of inventories recognised as expense	**83,789**	121,311
Auditors' remuneration	**2,271**	1,500
Depreciation on of property, plant and equipment	**6,551**	3,973
Loss on disposal of property, plant and equipment	**997**	–
Operating lease rentals in respect of land and buildings	**9,165**	10,785
Write bank of allowance for bad and doubtful debts (included in administrative expenses)	**(2,800)**	–
Interest income (included in other income)	**(4,927)**	(858)
Forfeiture of a customer's deposit (included in other income)	**(14,893)**	–

Notes to the Consolidated Financial Statements

For the year ended 31 December, 2007

13. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the eight (2006: nine) directors were as follows:

	Wong Yin Sen HK$'000	Hon Lik HK$'000	Wong Hei Lin HK$'000	Li Kim Hung HK$'000	Cheng Kong Yin HK$'000 (Note a)	Ding Xun HK$'000	Pang Hong HK$'000	Cheung Kwan Hung HK$'000	Total 2007 HK$'000
Fees	**–**	**–**	**–**	**–**	**300**	**100**	**100**	**100**	**600**
Other emoluments									
Salaries and allowances	**1,966**	**1,486**	**1,225**	**1,536**	**–**	**–**	**–**	**–**	**6,213**
Retirement benefits scheme contributions	**12**	**12**	**12**	**12**	**–**	**–**	**–**	**–**	**48**
Total emoluments	**1,978**	**1,498**	**1,237**	**1,548**	**300**	**100**	**100**	**100**	**6,861**

Note:

(a) Cheng Kong Yin resigned as Non-executive Director on 28 May, 2007.

	Wong Yin Sen HK$'000	Hon Lik HK$'000	Wong Hei Lin HK$'000	Li Kim Hung HK$'000	Cheng Kong Yin HK$'000	Ding Xun HK$'000 (Note a)	Song Xiao Hai HK$'000 (Note b)	Pang Hong HK$'000	Cheung Kwan Hung HK$'000	Total 2006 HK$'000
Fees	–	–	–	–	650	–	100	100	100	950
Other emoluments										
Salaries and allowances	1,261	1,170	1,040	1,177	–	–	–	–	–	4,648
Retirement benefits scheme contributions	12	12	12	12	–	–	–	–	–	48
Total emoluments	1,273	1,182	1,052	1,189	650	–	100	100	100	5,646

Notes:

(a) Ding Xun was appointed as Independent Non-executive Director on 27 July, 2006.

(b) Song Xiao Hai resigned as Independent Non-executive Director on 27 July, 2006.

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

14. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2006: five) were directors of the Company whose emoluments are included in the disclosures in Note 13 above. The emoluments of the remaining one (2006: Nil) individual were as follows:

	2007 HK$'000	2006 HK$'000
Salaries and other benefits	485	–
Contributions to retirement benefits schemes	7	–
	492	–

His emoluments were within the following bands:

	2007 No. of employees	2006 No. of employees
HK$nil to HK$1,000,000	1	–

15. DIVIDENDS

No dividend was paid or proposed during 2007, nor has any dividend been proposed since the balance sheet date.

For the year ended 31 December, 2006, the directors of SBT declared and approved dividend of RMB25,000,000 to shareholders of SBT on 20 April, 2006.

16. EARNINGS PER SHARE

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

	2007 HK$'000	2006 HK$'000 (restated)
Earnings		
Earnings for the purposes of basic earnings per share	26,116	51,894

16. EARNINGS PER SHARE-CONTINUED

	2007	2006
	'000	'000
		(restated)
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**1,457,264**	1,324,840

Diluted earnings per share has not been presented as the conversion of the Company's outstanding convertible notes would result in an increase in profit per share for the year ended 31 December, 2007 and there were no potential ordinary shares in the year ended 31 December, 2006.

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings	**Leasehold improvement**	**Plant and machinery**	**Furniture, fixtures and equipment**	**Motor vehicles**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
THE GROUP						
COST						
At 1 January, 2006, as restated	28,358	3,069	10,162	2,573	5,984	50,146
Exchange adjustments	1,017	63	373	79	182	1,714
Additions	18,079	1,652	574	2,047	6,004	28,356
At 31 December, 2006, as restated	47,454	4,784	11,109	4,699	12,170	80,216
Exchange adjustments	3,600	342	816	334	778	5,870
Additions	–	5,491	216	846	180	6,733
Disposals	–	(1,688)	(214)	–	(781)	(2,683)
At 31 December, 2007	51,054	8,929	11,927	5,879	12,347	90,136
DEPRECIATION						
At 1 January, 2006, as restated	6,158	1,664	5,211	1,524	2,861	17,418
Exchange adjustments	247	28	198	59	89	621
Provided for the year	1,282	625	647	493	925	3,972
At 31 December, 2006, as restated	7,687	2,317	6,056	2,076	3,875	22,011
Exchange adjustments	617	130	467	152	249	1,615
Provided for the year	1,480	2,569	670	698	1,134	6,551
Disposals	–	(1,088)	(34)	–	(392)	(1,514)
At 31 December, 2007	9,784	3,928	7,159	2,926	4,866	28,663
NET BOOK VALUES						
At 31 December, 2007	41,270	5,001	4,768	2,953	7,481	61,473
At 31 December, 2006, as restated	39,767	2,467	5,053	2,623	8,295	58,205

17. PROPERTY, PLANT AND EQUIPMENT-CONTINUED

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

Buildings	Over the shorter of the terms of the lease or 50 years
Leasehold improvement	Over the shorter of the terms of the lease or 10 years
Plant and machinery	9%-20%
Furniture, fixtures and equipment	18%-20%
Motor vehicles	9%-20%

18. GOODWILL

For the purposes of impairment testing, goodwill of HK$3,934,000 (2006: HK$3,934,000) has been allocated to an individual cash generating unit ("CGU"), which represents a subsidiary engaged in the health care products business.

The basis of the recoverable amounts of the above CGU and its major underlying assumptions are summarised below:

The recoverable amount of the CGU is determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU. The growth rates are based on industry growth forecast. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Group prepares cash flow forecast derived from the most recent financial budget approved by management for the next three years and extrapolates cash flows for the following five years based on zero growth rate.

The rate used to discount the forecast cash flow is 7%.

19. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

	2007 **HK$'000**	2006 HK$'000
Unlisted equity securities in Hong Kong	**1,000**	1,000
Less: Impairment loss	**(1,000)**	(1,000)
	–	–

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

The investment has been fully impaired in prior periods.

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20. INTANGIBLE ASSETS

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

	Technical know-hows HK$'000
COST	
At 1 January, 2006	10,481
Exchange adjustments	376
At 31 December, 2006	10,857
Exchange adjustments	806
At 31 December, 2007	11,663
AMORTISATION	
At 1 January, 2006	5,084
Exchange adjustments	215
Charge for the year	1,590
At 31 December, 2006	6,889
Exchange adjustments	557
Charge for the year	1,474
At 31 December, 2007	8,920
CARRYING VALUES	
At 31 December, 2007	2,743
At 31 December, 2006	3,968

21. PREPAID LEASE PAYMENTS

The prepaid lease payments comprise:

	2007	2006
	HK$'000	HK$'000
		(restated)
Leasehold land outside Hong Kong:		
Medium-term lease	**26,998**	25,477
Analysed for reporting purposes as:		
Current portion	**571**	527
Non-current portion	**26,427**	24,950
	26,998	25,477

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

22. INVENTORIES

	2007	2006
	HK$'000	HK$'000
		(restated)
Raw materials	**76,926**	75,998
Work in progress	**57,432**	65,791
Finished goods	**74,509**	94,169
	208,867	235,958

23. TRADE RECEIVABLES

	2007	2006
	HK$'000	HK$'000
		(restated)
Trade receivables	**164,624**	127,603
Less: Allowance for doubtful debts	**(2,888)**	(5,295)
	161,736	122,308

23. TRADE RECEIVABLES-CONTINUED

The Group allows an average credit period from 60 to 270 days to its trade customers. The following is an aged analysis of trade receivables net of allowance for doubtful debts at the reporting date:

	2007	2006
	HK$'000	HK$'000
		(restated)
0 to 60 days	**40,542**	53,635
61 to 90 days	**30,146**	22,966
91 to 180 days	**47,721**	36,527
181 to 270 days	**42,961**	9,180
Over 270 days but less than 1 year	**366**	–
	161,736	122,308

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

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

The amount receivables with a carrying amount of HK$161,370,000 (2006: HK$122,308,000) which are neither past due nor impaired at reporting date for which the Group believes that the amounts are considered recoverable.

At the balance sheet date, included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately HK$366,000 (2006: nil) which are past due at the reporting date for which the Group has not provided for impairment loss. There has not been a significant change in credit quality and the Group believes that the amounts are considered recoverable.

Ageing of trade receivables which are past due but not impaired

	2007	2006
	HK$'000	HK$'000
0-30 days overdue	**366**	–

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

23. TRADE RECEIVABLES-CONTINUED

Movement in the allowance for doubtful debts

	2007 HK$'000	2006 HK$'000
Balance at beginning of the year	**5,295**	5,015
Write back	**(2,800)**	–
Exchange adjustments	**393**	280
Balance at end of the year	**2,888**	5,295

There are no individually impaired trade receivables which have either been placed under liquidation or in severe financial difficulties included in the allowance for doubtful debts.

24. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2007 HK$'000	2006 HK$'000
– Deposits	**16,153**	18,818
– Prepayments	**21,885**	21,887
– Other receivables	**20,156**	37,828
	58,194	78,533

25. HELD-FOR-TRADING INVESTMENTS

	2007	2006
	HK$'000	HK$'000
Equity securities listed in Hong Kong	**266**	–

26. BANK BALANCES AND CASH

At 31 December, 2007, there were bank balances and cash denominated in Renminbi ("RMB") amounting to approximately HK$156,469,000 (2006, as restated: HK$32,986,000) and carry interest at market rates which range from 0.7% to 3.2%. RMB is not freely convertible into other currencies. Other bank balances and cash are denominated in Hong Kong dollars which carry interest at market rates which range from 0.4% to 2.3%.

27. FINANCIAL LIABILITIES

Trade payable, accruals and other payables principally comprise amounts outstanding for trade purposes and ongoing costs.

The aged analysis of trade payables is as follows:

	2007	2006
	HK$'000	HK$'000
		(restated)
0 to 30 days	**3,431**	6,837
31 to 60 days	**519**	4,903
61 to 90 days	**1,947**	6,640
Over 90 days but less than 1 year	**9,174**	7,431
Over 1 year	**1,877**	–
	16,948	25,811

28. BORROWINGS

	THE GROUP	
	2007	2006
	HK$'000	HK$'000
		(restated)
Bank borrowings-unsecured	**23,540**	45,825
Other borrowings-secured (note a)	**24,990**	29,923
Other loans-unsecured (note b)	**–**	23,862
	48,530	99,610
Carrying amounts repayable:		
On demand or within one year	**30,913**	61,392
More than one year but not exceeding two years	**6,843**	21,124
More than two years but not exceeding three years	**6,351**	5,835
More than three years but not exceeding four years	**4,423**	5,480
More than four years but not exceeding five years	**–**	5,779
	48,530	99,610
Less: Amounts due within one year shown under current liabilities	**(30,913)**	(61,392)
	17,617	38,218
Borrowings comprise:		
Fixed-rate borrowings	**9,630**	20,974
Floating-rate borrowings	**38,900**	78,636
	48,530	99,610

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

	2007	2006
Effective interest rate per annum:		
Fixed-rate borrowings	**7.5%**	6%
Floating-rate borrowings	**7.7% to 8.7%**	5.9% to 7.4%

Notes:

(a) Other borrowings are repayable by instalments until 28 August, 2011 and are secured by legal charges over the certain of building and leasehold land of the Group. No interest has been charged for the other borrowings. The imputed interest rate of the other borrowings for the year ended 31 December, 2007 was 7.7% per annum.

(b) Other loans represented the remaining balance of the borrowings of US$4,600,000 from Nederlandse Financierings-Maastschappij Voor Ontwikkelingslanden N.V. The loans were interest bearing at Inter-bank Offered Rate plus 2.5% per annum and had been fully repaid during the year.

29. CONVERTIBLE BONDS AND DERIVATIVE FINANCIAL INSTRUMENTS

On 31 July, 2007, a subsidiary of the Company issued HK$151,000,000 convertible bonds (the "Convertible Bonds") bearing coupons of 2.5% per annum payable semi-annually in arrear and matures on 31 July, 2012 (the "Maturity Date"). The Convertible Bonds can be converted into the Company's shares at a fixed conversion price of HK$1.59 initially, subject to anti-dilution adjustments.

The subsidiary of the Company may redeem the Convertible Bonds, in whole or in part, at any time after the second anniversary of the issue of the Convertible Bonds and prior to the Maturity Date at an early redemption price of HK$2.07 in the event that the volume weighted average price of the Company's shares exceeds 135% of the conversion price for at lease 30 conservative trading days or in the event that at least 90% of the Convertible Bonds issued and outstanding has been redeemed or converted. On a certain date in 2009, 2010 and 2011, the bondholder will have the right to redeem, in whole or in part, the Convertible Bonds at an early redemption price at HK$2.08. Unless previously redeemed or converted into the Company's shares, the Company shall redeem the Convertible Bonds at 162.6088% of the principal amount of the Convertible Bonds on the Maturity Date.

The net proceeds received from the issue of the Convertible Bonds contain the following components that are required to be separately accounted for in accordance with HKAS 39 "Financial instruments: Recognition and measurement":

(a) Liability component of the Convertible Bonds represents the present value of the contractually determined stream of future cash flows discounted at the rate of interest at that time determined by the market for instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the conversion and redemption option. The effective interest rate of the liability component is 18.35% per annum.

(b) Embedded conversion option of the Convertible Bonds to be accounted for as a separate derivative liability represents the fair value of the option to convert the liability into the equity of the Company but the conversion will be settled other than by the exchange of a fixed number of the Company's own equity for a fixed amount of cash.

(c) Issuer early redemption option embedded in the Convertible Bonds represents the Company's option to early redeem, in whole or in part, the Convertible Bonds.

(d) Holder early redemption option embedded in the Convertible Bonds represents the bondholders' right to request the Company to early redeem, in whole or in part, the Convertible Bonds.

29. CONVERTIBLE BONDS AND DERIVATIVE FINANCIAL INSTRUMENTS-CONTINUED

The movement of different components of the Convertible Bonds during the year is set out below:

	Liability	**Embedded derivatives, representing, conversion option, issuer early redemption option, and holder early redemption option**	**Total**
	HK$'000	HK$'000	HK$'000
At 1 January 2006 and 31 December 2006	–	–	–
Issued during the year	117,980	33,020	151,000
Transaction costs	(7,272)	–	(7,272)
Interest charged (note 10)	9,032	–	9,032
Interest paid	–	–	–
Change in fair value	–	(3,080)	(3,080)
At 31 December 2007	119,740	29,940	149,680

The fair values are calculated using the binomial model. The inputs into the model were as follows:

	Embedded conversion option		**Issuer early redemption option**		**Holder early redemption option**	
	As at 31.12.2007	**As at 31.7.2007**	**As at 31.12.2007**	**As at 31.7.2007**	**As at 31.12.2007**	**As at 31.7.2007**
Exercise price	HK$1.59	HK$1.59	HK$2.07	HK$2.07	HK$2.08	HK$2.08
Expected volatility (note a)	89%	90%	89%	90%	89%	90%
Option life (note b)	4.58 years	5 years	4.58 years	5 years	4.58 years	5 years
Risk free rate (note c)	3.02%	3.02%	3.02%	3.02%	3.02%	3.02%

Notes:

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

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

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

During the year, HK$3,080,000 (2006: nil) was recognised to consolidated income statement as change in fair value of derivative financial instruments.

30. SHARE CAPITAL

	Number of shares '000	Share capital HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January, 2006 and 31 December, 2006	1,000,000	100,000
Increase in authorised share capital (note a)	1,000,000	100,000
At 31 December, 2007	2,000,000	200,000
Issued and fully paid:		
At 1 January, 2006	584,000	58,400
Placing of shares (note b)	116,800	11,680
At 31 December, 2006	700,800	70,080
Placing of shares (note c)	105,000	10,500
Conversion of convertible notes (note 31)	707,560	70,756
At 31 December, 2007	1,513,360	151,336

Notes:

(a) On 12 June, 2007, a resolution for the increase of authorised share capital of HK$100,000,000 was duly passed during the special general meeting of shareholders of the Company. The total authorised share capital was increased to HK$200,000,000.

(b) On 19 September, 2006, the Company, Absolute Target and Guotai Junan Securities (Hong Kong) Limited ("Guotai"), the placing agent, entered into a placing and subscription agreement pursuant to which Absolute Target agreed to place, through Guotai, an aggregate of 116,800,000 ordinary shares of the Company of HK$0.1 each to six independent investors at a price of HK$0.55 per share; and Absolute Target conditionally agreed to subscribe for an aggregate of 116,800,000 shares at a price of HK$0.55 per share.

(c) On 3 July, 2007, the Company, Smart Huge Group Limited ("Smart Huge"), a wholly owned subsidiary of AAI, and BOCI Asia Limited entered into a placing and subscription agreement pursuant to which Smart Huge has agreed to place, through BOCI Asia Limited, an aggregate of 105,000,000 shares of the Company of HK$0.1 each to six independent investors at a price of HK$1.38 per share; and Smart Huge conditionally agreed to subscribe for an aggregate of 105,000,000 shares at a price of HK$1.38 per share.

The premium on the issue of shares, amounting to approximately HK$1,126,843,000 (2006: HK$52,560,000) was credited to the Company's share premium account.

31. ISSUABLE SHARES

	Number of shares '000	HK$'000
Issue of Convertible Notes on the Acquisition	707,560	976,433
Conversion of Convertible Notes	(707,560)	(976,433)
At 31 December, 2007	–	–

Notes:

(a) Pursuant to the Agreement dated 13 February, 2007, the Company will issue convertible notes which can be converted to 707,560,000 shares at HK$1.80 per share as consideration to acquire SBT. On 14 June 2007, AAI had directed the Company to issue the Convertible Notes to its wholly owned subsidiary, Smart Huge Group Limited ("Smart Huge"). During the year 2007, Smart Huge exercised the convention right to convert the Convertible Notes into 707,560,000 ordinary shares of HK$0.10 per share.

(b) The principal amount of the Convertible Notes is RMB1,273,608,000. The Convertible Notes are mandatorily convertible to 707,560,000 shares in three years and the conversion price will be HK$1.8 per share with a fixed exchange rate of HK$1.00 to RMB1.00. The Convertible Notes bear interest at a rate of 2.5% per annum on the principal amount of the convertible notes outstanding, and the interest is payable semi-annually. The fair value of the consideration is calculated by reference to the number of the Company's shares to be issued upon full conversion of the Convertible Notes (i.e. 707,560,000 shares) and the market price of the Company's shares on the date of the completion of the Acquisition (i.e. HK$1.38).

(c) During the year, the Convertible Notes have been fully converted into ordinary shares.

32. SHARE OPTION SCHEME

The major terms of the share option scheme are summarised as follows:

(i) The purpose is to provide incentives to award the participants who have made contributions to the Group and/or any entity in which the Group holds any equity interest ("Invested Entity").

(ii) The participants included any employee, director, supplier, customer, adviser, shareholder or joint venture partner of the Group and/or Invested Entity.

(iii) The maximum number of shares in respect of which options might be granted under the scheme must not exceed 30% of the issued share capital of the Company from time to time.

(iv) The maximum number of shares in respect of which options might be granted to a participant, when aggregated with shares issued and issuable (including exercised and outstanding options) under any option granted to the same participant under the scheme within any 12 month period, must not exceed 1% of the shares in issue from time to time.

(v) There was no requirement for a grantee to hold the option for a certain period before exercising the option save as determined by the board of directors and provided in the offer of grant of option.

32. SHARE OPTION SCHEME-CONTINUED

(vi) The exercise period of an option granted must not exceed a period of 5 years commencing on the date of grant.

(vii) The acceptance of an option, if accepted, must be made within 28 days from the date of grant with a non-refundable payment of HK$1 from the grantee to the Company.

(viii) The exercise price of an option must be the highest of:

- the closing price of the shares on the date of grant which must be a trading day;
- the average closing price of the shares for the 5 trading days immediately preceding the date of grant; and
- the nominal value of the share.

(ix) The life of the share option scheme is effective for 10 years from the date of adoption until 29 May, 2013.

No options pursuant to the share option scheme were granted for both years nor outstanding as at the balance sheet dates.

Subsequent to Balance Sheet date 31 December 2007, the Company has issued 52,100,000 share options in accordance to Share Option Scheme approved in 2003.

33. CAPITAL COMMITMENTS

	2007	2006
	HK$'000	HK$'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of intangible assets	**278**	259

34. OPERATING LEASES

The Group as lessee

At the balance sheet date, the Group had commitments for future minimum lease payments in respect of rented premises which fall due as follows:

	2007	2006
	HK$'000	HK$'000
		(restated)
Within one year	**3,815**	4,320
In the second to fifth year	**1,602**	3,457
	5,417	7,777

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

35. RETIREMENT BENEFITS SCHEMES

The Group operates a mandatory provident fund scheme (the "Scheme") for all qualifying employees of the Group in Hong Kong. The assets of the Scheme are held separately from those of the Group, in funds under the control of the trustees. During the year, contributions made by the Group to the Scheme amounted to HK$216,000 (2006: HK$216,000).

The employees of the subsidiaries in the PRC are members of retirement benefits schemes operated by the PRC government. The relevant PRC subsidiaries are required to make contributions to the state retirement schemes in the PRC based on 18% to 22% of the monthly salaries of their current employees to fund the benefits. The employees are entitled to retirement pension calculated with reference to their basic salaries on retirement and their length of service in accordance with the relevant government regulations. The PRC government is responsible for the pension liability to these retired staff.

During the year, contributions made by the Group to the state retirement schemes amounted to HK$1,368,000 (2006: HK$1,883,000).

The contributions made by the Group to the Scheme and state retirement schemes are charged to the consolidated income statement as incurred.

36. PLEDGE OF ASSETS

At the balance sheet date, certain of the Group's assets have been pledged to secure the other borrowings of the Group. The aggregate carrying amount of the pledged assets of the Group at the balance sheet date is as follows:

	2007 **HK$'000**	2006 HK$'000 (restated)
Buildings	**18,607**	17,774
Prepaid lease payments	**24,267**	23,053
	42,874	40,827

37. RELATED PARTY TRANSACTIONS

The Group's managed by the directors and details of the directors' emoluments are disclosed in note 13.

Notes to the Consolidated Financial Statements

For the year ended 31 December, 2007

38. PRINCIPAL SUBSIDIARIES

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

Name of subsidiary	Place of incorporation or registration/ operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company indirectly %	directly %	Principal activities
Chenlong Group Limited	BVI/Hong Kong	US$20,000	–	100	Investment holding
集安新華龍參業有限公司 Jian New Wellon Ginseng Industry Co., Ltd. ("Jian New Wellon")	PRC	RMB7,000,000 (note a)	100	–	Purchase and sales of raw ginseng
新華龍有限公司 New Wellon Limited	Hong Kong	HK$10,000	100	–	Investment holding
瀋陽辰龍保齡參有限公司 Shenyang Chenlong	PRC	US$3,705,000 (note b)	100	–	Processing and sales of a series of health care products
瀋陽金龍保健品有限公司 Shenyang Jinlong	PRC	US$1,220,000 (note c)	100	–	Processing and sales of ginseng and related products
瀋陽金龍藥業有限公司 Shenyang Jinlong Pharmaceutical Co., Ltd. ("Jinlong Pharmaceutical")	PRC	HK$20,000,000 (note d)	100	–	Processing and sales of Pharmaceutical products and production of electronics cigarettes components
Success Century Holding Limited ("Success Century")	BVI	US$50,000	100	–	Investment holding
SBT	Hong Kong	HK$100	100	–	Investment holding
北京賽波特如烟科技發展有限公司 Beijing SBT	PRC	US$500,000	100	–	Research and develop production and sales of Ruyan atomizing cigarettes
瀋陽賽波特科技發展有限公司 Shenyang SBT Technology Development Co., Ltd.	PRC	US$500,000	100	–	Research and develop production and sales of Ruyan atomizing cigarettes
天津賽波特如烟科技發展有限公司 Tianjian SBT Technology Development Co., Ltd.	PRC	HK$36,000,000	100	–	Research and develop production and sales of Ruyan atomizing cigarettes

38. PRINCIPAL SUBSIDIARIES-CONTINUED

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

Notes:

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

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

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

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

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

Financial Summary

	Year ended 31 December,				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
		(restated)	(restated)	(restated)	(restated)
RESULTS					
Turnover	**275,382**	402,851	265,057	184,776	156,263
Profit before tax	**38,734**	84,289	43,479	(11,790)	12,880
Income tax expense	**(4,495)**	(2,023)	(2,769)	(3,519)	(2,738)
Profit for the year	**34,239**	82,266	40,710	(15,309)	10,142
Attributable to:					
Equity holders of the parent	**26,116**	51,894	28,177	(6,701)	7,797
Minority interest	**8,123**	30,372	12,533	(8,608)	2,345
	34,239	82,266	40,710	(15,309)	10,142

	As at 31 December,				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
		(restated)	(restated)	(restated)	(restated)
ASSETS AND LIABILITIES					
Total assets	**885,527**	604,605	461,516	393,728	444,205
Total liabilities	**(280,710)**	(203,303)	(156,982)	(134,459)	(161,526)
Preferred shares issued by a subsidiary	**–**	–	(35,793)	(31,200)	(31,200)
	604,817	401,302	268,741	228,069	251,479
Equity attributable to equity holders of the period	**604,817**	363,534	252,320	217,179	228,601
Minority interest	**–**	37,768	16,421	4,302	22,878
	604,817	401,302	268,741	217,179	251,479

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