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

2008

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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

Commence & Finance Law Office

AUDITORS

Deloitte Touche Tohmatsu

REGISTERED OFFICE

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Grand Cayman KY1-1111
Cayman Islands

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street, George Town
P.O. Box 705
Grand Cayman, KY1-1107
Cayman Islands

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

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 2008 (the "Year") of the Company and its subsidiaries (the "Group").

RESULTS FOR THE YEAR 2008

For the Year, the audited consolidated loss attributable to shareholders of the Company amounted to HK$164,644,000, representing a decrease of approximately HK$198,883,000 over a profit of HK$34,239,000 for the year 2007. On this basis, the loss per share of the Company for the Year was approximately HK$10.88 cents (corresponding period in 2007: earnings per share of approximately HK$1.79 cents).

For the Year, the Group achieved sales income of HK$424,045,000, representing an increase of 53.98% from the turnover of HK$275,382,000 for the year 2007. The sales incomes of health care products, pharmaceuticals products and electronic cigarette components were HK$104,165,000, HK$41,983,000 and HK$277,897,000 respectively.

PROSPECTS FOR THE YEAR 2009

The recent global financial and economic crisis present both challenges and opportunities for the Company. Despite the severe impact of the financial crisis on the flow of credit, the Company's existing distribution partners have maintained their ability to invest and to operate without interruption. Moreover, as a practical tool to face the growing restrictions on smoking in countries throughout the world, the Company's electronic cigarettes stand to benefit despite the economic downturn. The Company will cope with this downturn by ramping up its introduction of more affordable and disposable products that offer consumers convenience and value.

Under the current financial crisis, the Group will continue to implement cost-effective measures on each business level. Remuneration standard of each level including members of the Board and the management which will be set with reference to the competitiveness of the Company is based on a system that is carable of cost benefit adjustment, so as to minimize the impact of the financial crisis.

DIVIDENDS

No interim dividend was declared for the Year. The Board does not recommend the payment of any final dividend for the Year (2007: 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 go to all members of our staff, in particular to my fellow directors and the management team for their continuous support to the Group's development in the Year.

On behalf of the Board

Wong Yin Sen
Chairman

Hong Kong, 21 April 2009

BUSINESS PERFORMANCE CONDITIONS

Business Review

The year of 2008 passed in the blink of an eye. Despite the stringent reform on the pharmaceutical industry implemented by the People's Republic of China (the "PRC") and the global economic crisis, the Company has achieved expected results through planned production and sales. This process was believed to have given a new birth to the Company. With continual regulations on the pharmaceutical market implemented by the PRC government, several uncompetitive enterprises were eliminated as a result (In 2008, about 100 pharmaceutical factories and commercial companies were ousted). Certain fake pharmaceutical products were gradually ousted while the Company's products have laid down a strong foundation for market penetration in the future with reliable quality and stable curative effect. The Company took this opportunity to increase the price of its pharmaceutical products. The product with greatest price hike was the Meinouping granule, which has an increase of 45% in wholesale price.

In 2008, the global financial crisis and foreign health care products entering the PRC market have caused certain impacts to the market of health care products with domestic brands. Total sales in the health care products market dropped compared with the same period last year. Faced with such adverse market situation, the Group adopted measures for sales structure adjustment of the products proactively, increased the sales of four new products with higher added-value such as Shen Zhong Zhi Bao (參中之寶), decreased the sales of the old products with low gross profit and solidified the three newly-developed markets in last year, as well as altered the single mode of supermarket sales in the past and tried to sell our new products through direct marketing on television. Although sales of the Company's health care products dropped compared to the same period of the previous year, an increase in the Company's gross profit was recorded in the current year.

As for the electronic cigarette business, the Group achieved several major milestones in 2008 that have strengthened the Company's long term position:

- RUYAN invention patent certificates were granted by a number of national institutions including the State Intellectual Property Office of the PRC, the Eurasian Patent Office, European Patent Office and Intellectual Property Office of Singapore.

- The products of the Company won two of the six awards presented at the 2008 Tobacco Plus Expo held at the Las Vegas Convention Center on April 24th and 25th 2008. The Company's electronic cigarette was named 2008's most innovative product and its Ruyan Vegas E-cigar was named the most marketable product of the year.

- Product safety test results attesting that RUYAN's conformity to international standards were concluded by tobacco control experts in New Zealand.

- Ruyan America Inc. ("Ruyan America") established national and regional distribution channels in North America. It has also participated in major conferences and organized business seminars in the region.

- Business of the Company was advanced with existing distributorships in The Republic of Korea ("Korea"), Israel, Turkey and Romania. The Company has also organized distribution talks and obtained regulatory approvals in France, Spain, Italy, Germany, Sweden, Japan, Russia, Dubai, Australia and other countries.

BUSINESS PERFORMANCE CONDITIONS (CONTINUED)

Business Review (continued)

In 2008, the Group recorded loss for the Year of HK$164,644,000, despite there was HK$148,663,000, representing an increase of 53.98% in the turnover of the Group for 2008. The loss for the Year is mainly attributable to the substantial provision made for the asset impairment loss in respect of the provision for impairment on inventory at about HK$68,661,000 due to technical or commercial obsolescence. Provision has also been made for bad debts as the Board is concerned that given the poor global economic climate at present, certain debtors of the Group may take a longer period to make repayments or may even default on repayments. The Group is confident that by adopting marketing and pricing strategies designed to keep our products as attractive as possible, and upholding our commitment to quality, the Group will be able to achieve profitability in the near future if the economic climate in the later part of 2009 becomes positive.

Product Development

In 2008, the procedures for review and approval of new products by the State Food and Drug Administration of the PRC were seen to be less cumbersome. Two new products of the Company, “Yu Ning tablet” and “Hong Yao tablet”, were given the product registration certificates while other new products were under review by the regulatory authority in the PRC. The gradual commencement of production of new products will become a new stream of revenue for the Group.

In 2008, the Group’s first disposable electronic cigarette products, RUYAN e-Gar® and RUYAN Vegas® were launched in the North American, European, Southeast Asian, Middle-Eastern, Russian, Korean, Israeli and other markets. Initial market response is positive, as the products have almost answered the need for a safe smoking alternative in venues where smoking is banned – such as bars, pubs, restaurants, hotels and casinos. Both nicotine and non-nicotine versions of the Ruyan products of the Company are popular.

In April 2008, a factory with national GMP authentication of pharmaceutical products was established in Tianjin of the PRC, which attested that the quality of the cartridges for the products of the Company meets both the GMP standard and the requirements of the international market. It is anticipated that the quality of our products will give confidence to our customers and on this basis the Group could establish a solid base for future development.

The Group has developed the Ruyan products by increasing the taste of its products to satisfy the needs of different customers.

Regional Development

Pharmaceuticals and health care products

As for the pharmaceutical products, the Group has established key development markets in Liaoning, Szechuan, Guangdong, Henan and Shandong, which serve as centers covering the major cities of the country and developed new channels with hospitals directly. In addition, the Group is committing to training the Group’s agents into part-time staff so as to gradually transit to office management.

In 2008, while the Group maintained the existing sales in the health products market, the Group developed markets in three provinces last year, namely Shaanxi, Shanxi and Gansu. The business scope of these markets covered certain provinces in the western part of the PRC and laid a foundation for the Company’s next step in regional development. The mode of direct sales on TV was adopted in the Guangdong region and certain effects on sales were obtained.

BUSINESS PERFORMANCE CONDITIONS (CONTINUED)

Regional Development (continued)

Electronic Cigarette

Throughout 2008, the Company has successfully established presence in key markets, made further progress therefrom and achieved remarkable sales throughout the period. Selection of business partners and development of sales channels continue to be the top priority of the Group's international business. Existing partnerships of the Company were further developed in North America, Korea, Israel, Turkey, the United Kingdom and Ireland. At the same time, negotiations with business partners in the European Union, the Middle East, Australia, Japan, Russia and other countries are underway. Sales orders of the Company for shipments have also been made to many of these markets.

Progress in United Kingdom and Ireland

In February 2008, the Company formed an agreement of co-operation with Nicocig Ltd. of the United Kingdom for distribution of its products in the United Kingdom and Ireland. Nicocig Ltd. has established relationships with a number of prominent wholesales in these markets and has begun introducing the Company's products to pharmaceutical, corporate, grocery and entertainment channels. At present, the regulatory regime in the United Kingdom allows the sales of electronic cigarettes whether with or without nicotine content in a variety of retail environments. It is anticipated that legal action against parties suspected of infringement of the Company's intellectual property rights in the United Kingdom is imminent.

Progress in the PRC

The Company initially developed the domestic market in the Eastern and Southern parts of the PRC, and plans to gradually extends to the inner regions. The Group plans to establish a base for market development in the western part of the PRC. However, the development and investment project in Xian was revoked and the fund invested was withdrawn for future capital investment opportunity when the market environment improves. After establishing a solid presence in the western part of the PRC, the Company shall continue its market development in other western parts of the PRC such as Shanxi, Szechuan and Yunnan.

Progress in North America

The progress made in North America and the USA in particular, is a top achievement of the Company. After months of intensive efforts by Ruyan America, the Company has established a solid foundation in the USA for future market development. Effective distribution channels and exciting marketing venues have been developed to facilitate the launch of the products of the Company. All these favourable factors prove to sustain the momentum of the Company.

Progress in the Republic of Korea

With the agreements made with the Company in the beginning of September 2007, the Company's Korean partner has placed orders with the Company steadily throughout 2008. As a result of the joint efforts by the Company's headquarters and the Korean distributor, the Korean market has been opened up and all significant regulatory hurdles have been overcome, including meeting electronic safety and relevant health standards and the standards of customs. Relationships have also been established with local distribution channels which include tobacco outlets, pharmacies and shopping marts.

BUSINESS PERFORMANCE CONDITIONS (CONTINUED)

Regional Development (continued)

Progress in Israel

With dedicated efforts from Ked Electronic Cigarette Ltd, the Company's distributor in Israel, the Company has yielded positive support from local government officials and strong legal support for the Company's intellectual property rights. Multiple sales channels have also been established over more than two and a half years of co-operation. Significantly, the Company has been regarded as a premium and innovative brand which enjoys strong awareness and has been supported by a number of core loyal consumers.

Progress in Other Markets

The Company has supported partners in the USA, the United Kingdom, Korea, Israel, Turkey and other countries to provide critical legal support to protect the Company's patent and trademark positions in these countries. The partners of the Company have taken appropriate actions to pursue patent and copyright infringements wherever possible. Additional legal support has also been given by local government channels to reinforce the Company's position as the authentic and original manufacturer of electronic cigarettes and related products. As a result of multiple efforts, markets in these countries have been maintained, and sales and marketing activities by both the partners and the Company are now able to proceed again normally. In the PRC, strong actions are underway to combat illegal manufacturing and exports of counterfeits of electronic cigarettes. Several websites infringing the Company's trademark were shut down in November 2008.

The Turkish government, alarmed by the quality performance and dubious claims of many suspected counterfeit manufacturers and vendors of electronic cigarettes, closed the entire electronic cigarette market at the beginning of 2008. Since then the Company and its Turkish distributor have been working together to re-assert the Company's leadership and proven credentials with the Turkish authorities.

The regulatory status of the Company's electronic cigarettes in the USA and the United Kingdom allows the free sales of the Company's products as an alternative to smoking. Regulations in other countries differ: they range from outright bans on electronic cigarettes, pending full clinical trials, to the free sales of electronic cigarettes device with zero nicotine cartridges. Some countries even resort to the imposition of high "tobacco" taxes on the non-tobacco products of the Company.

The Group continued to explore potential overseas markets to realize its strategy to promote the products to the other parts of the world. While the Group extended its geographical reach to an increasing number of cities in the PRC during the Year, our global retail network has also been broadened to new overseas markets. Apart from the retail outlets in Canada and the USA, the Group opened another new shop under the brand name of "Luk Fook" in New York in December 2007. The Group is exploring further possibilities to open another new shop in Las Vegas of the USA in the near future.

PROSPECTS FOR THE YEAR 2009 AND DEVELOPMENT PLAN

Electronic Cigarette

Products and Research & Development

In the beginning of February 2009, Ruyan America launched the new Ruyan Jazz® disposable electronic cigarette which is designed specifically for the hospitality, convenience store and travel center market. This product enjoyed a strong initial market launch and has subsequently secured distribution and placement throughout the USA. Similar to Ruyan's award winning Ruyan Vegas®, Ruyan Jazz® is a completely disposable product that does not require its battery to be charged or its cartridges to be changed. Ruyan Jazz® resembles a slightly larger traditional cigarette, 134 mm in length and 11 mm in diameter and has an equivalent mouthful of vapor found in four to five packs of conventional cigarettes. Like the other smoking alternatives of the Company, Ruyan Jazz® does not contain tobacco and is not subject to smoking restrictions or tobacco taxes in the USA. The product will be launched in Europe, Asia and the Middle East by the 2nd quarter of 2009.

In the beginning of the 2nd quarter of 2009, the Company will launch a series of entry-level and/or disposable products intended to regain market-share by offering affordable and practical solutions to smokers and to those who are affected by second hand smoke. The Company will continue to expand its product portfolio to include all tiers of the market and will invest aggressively in research and development to develop mid-market and higher-end products that appeal to various consumer segments. All of these efforts will be synchronized to reinforce the Company's brand position as a trend-setting safe smoking alternative that offers people freedom and choice. The Company's products will be further customized to meet the needs of various markets and tastes.

Market Share and Brand Equity

The Company's market share and brand equity is the strongest in the following markets with established distribution partners, including the USA, Israel and Korea. As a dedicated manufacturer and global brand in development, the Company will continue to focus on quality distribution channels to serve consumers, to strengthen its Internet and media communications and to work with government officials and scientific organizations around the world to build confidence in the Company's electronic cigarettes. At the same time, various legal actions which are currently underway will start to yield significant results both within the PRC and internationally. It is anticipated that the Company will raise market share in key markets in the beginning of the second half of 2009.

It is expected that when the Company proceeds into late 2009 and enters into 2010, potential partnership with other industries and competent service providers will bring about new opportunities for the Company to serve millions of consumers worldwide, enabling the Company to come up with more revolutionary, patented and original inventions. Similar to leaders in other industries which involve innovations, the Company takes core values such as time-to-market, continuous improvement and total customer satisfaction seriously.

Pharmaceuticals and health care products

Following the overall recovery of the health care products market in the PRC, 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 launched in the market in 2009. Apart from developing new markets continuously, the Group plans to explore markets that conduct sales activities by means of direct selling. It is anticipated that the Company's sales of health care products will grow annually.

PROSPECTS FOR THE YEAR 2009 AND DEVELOPMENT PLAN (CONTINUED)

Pharmaceuticals and health care products (continued)

As for the pharmaceutical products, the Company will continue to develop in a steady and healthily manner in 2009. The Company will further strengthen the expansion of sales channels. It is expected that the Company's return from sales generated from provinces which have been developed in 2008 will grow in doubles. With the implementation of medical reform in the PRC, the Company will also work on a smaller scale, which includes development target on clinics in towns and villages.

TAXATION

Prior to 2008, certain PRC-operating subsidiaries of the Company were subject to the PRC's enterprises income tax ("EIT"), at a rate of 15% and local income tax ranging from 0% to 3% of assessable profits, which represents the preferential PRC EIT rate for companies located within special economic zones in the PRC. In addition, some of the PRC-operating subsidiaries were classified as Foreign Investment Enterprise ("FIE") and entitled to an exemption from the 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 ranges from 0% to 7.5%.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the new PRC Enterprise Income Tax Law (the "New Law"), which took effect from 1 January 2008. The New Law imposed a unified income tax rate of 25% on all domestic and foreign invested enterprises, which include the PRC-operating subsidiaries of the Company. However, the New Law permits companies to continue to enjoy their existing preferential tax treatments until such treatments expire in accordance with their current terms. Pursuant to the transitional arrangement under the New Law, the Company's subsidiaries that previously enjoyed the fixed-term preferential enterprise income tax treatment in the form of tax reductions and exemptions, such as the "two-year tax exemption followed by a three-year 50% tax reduction", should continue to enjoy the preferential treatment for their initial term as prescribed under the previous tax laws. Moreover, the income tax rate applicable to certain subsidiaries of the Company, which enjoy a preferential income tax rate of 15%, is expected to increase gradually to the unified rate of 25% over a 5-year transition period.

Any increase in the effective tax rate as a result of the above may affect the operating results of the Group. Therefore, the Group is actively monitoring the associated changes in the PRC tax law and evaluating appropriate organizational changes to minimize the corresponding tax impact.

LIQUIDITY AND FINANCIAL ANALYSIS

As at 31 December 2008, the Group did not have any short-term bank loans (2007: HK$23.5 million) nor any long-term bank loans (2007: nil).

During the Year, an amount of HK$1.8 million was paid as an aggregate interest of bank loans (2007: HK$2.7 million). The Group did not use property as securities for such bank facilities or any financial instruments for hedging purposes.

LIQUIDITY AND FINANCIAL ANALYSIS (CONTINUED)

Gearing ratio of the Group reduced from approximately 27.4% as at 31 December 2007 to approximately 32.4% as at 31 December 2008. This calculation is based on total borrowings of approximately HK$156.7 million (2007: HK$168.3 million) and shareholders fund of approximately HK$483.2 million (2007: HK$604.8 million).

As at 31 December 2008, the balance of the inventories amounted to HK$196 million, representing an increase of HK$13 million when compared with previous year.

ACQUISITION

There were no material acquisitions and disposals of subsidiaries and associated companies during the year ended 31 December 2008.

CHARGE OF ASSETS

As at 31 December 2008, the Group had no bank deposits pledged to banks to secure banking facilities granted to its subsidiaries (2007: nil).

CONTINGENT LIABILITIES

As at 31 December 2008, the Group did not provide any form of guarantees for any outside companies and was not liable to any material legal proceedings of which provision for contingent liabilities was required.

EMPLOYEE POLICY

As at 31 December 2008, the Group employed approximately one thousand five hundred employees in the PRC and Hong Kong.

Talents are the core competitive drive of an enterprise. Whoever has talents, whoever wins in the game. The Group conducts talent trainings with reference to the four visions, namely selecting people, nurturing people, employing people and retaining people. The Group has entered into a long-term co-operation agreement with Liaoning College of Traditional Chinese Medicine and selects around 15 graduates every year for training purpose. This will not only nurture their professional skills, but will also increase their loyalty towards the Company. At the end of the year, the Company will give award to the excellent staff with an aim to encouraging them to develop along with the Company.

The Group will further establish its own corporate culture, strengthen staff training and implement the appraisal system, so as to let the staff become part of the Company. As a result, the Company could establish a fair ground for competition where the staff are proud of the Company.

The Board is committed to maintaining and ensuring a high standard of corporate governance, as the Board takes the view that a high standard of corporate governance lays a solid foundation for enhancing a 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 the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (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 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 for the four executive Directors that 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 for 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 require the approval of the Board. All the Board members are able to access the Board papers and other relevant materials and are given reasonable notice to review Board papers and other relevant materials. They are provided with sufficient information as the basis for their decision making. In respect of a 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 responsible for the preparation of the agenda of the Board meetings.

The biographies of the Directors are set out in pages 17 to 18, 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 who are not present in the Company's principal place of business in Hong Kong, conference call is used by the Company to take advice from them.

APPOINTMENTS OF DIRECTORS

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

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

APPOINTMENTS OF DIRECTORS (CONTINUED)

The independent non-executive Directors of the Company also play an 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 will consider the past performance, qualification, general market conditions and the Articles of Association in selecting and recommending suitable candidates for directorships.

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

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 came to the conclusion 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 7 Board meetings. All Directors were given sufficient time to review documents and information relating to matters that have to be discussed during such meetings.

Details of the Directors' attendance at Board meetings held in 2008 are as follows:

Executive Directors

Mr. Wong Yin Sen	6/7
Mr. Hon Lik	6/7
Mr. Wong Hei Lin	6/7
Mr. Li Kim Hung	7/7

Independent non-executive Directors

Mr. Pang Hong	7/7
Mr. Cheung Kwan Hung, Anthony	7/7
Mr. Ding Xun	7/7

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 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 the retirement and rotation provisions under 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 annual general meeting of the Company, and in the case of an addition to the existing Board, until the next annual general meeting of the Company. Every Director, including those appointed for a specific term or holding office as the chairman and/or the managing Director, is subject to retirement by rotation at least once every three years. Furthermore, any Directors elected by the Company by an 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 the number of Directors for retirement by rotation.

Each newly appointed Director will be reminded of his duties and responsibilities as Directors of a listed company under the Listing Rules, related ordinances and relevant requirements of the regulatory bodies in Hong Kong. An orientation meeting with newly appointed Director(s) will be held for the purpose of briefing them on the 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. Currently its members comprise:

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

The duties of the Audit Committee include the 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 the commercial sectors and professional knowledge on financial reporting and management.

Members of the Audit Committee meet regularly to review the financial reporting matters, 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 of the 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.

AUDIT COMMITTEE (CONTINUED)

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. Currently, its 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 sector and knowledge in the general economic 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	2/2

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

In determining the remuneration level and packages of the Directors and senior management, the Company takes into account several factors including the prevailing market practice, time commitment, duties and responsibilities of the Directors and senior management and their respective contribution to the Group.

INVESTOR RELATIONSHIP AND COMMUNICATION

The Company is committed to maintaining an open policy and regular communication with reasonable disclosure of information to its shareholders and investors. The annual general meeting is the principal forum for establishing 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 issuance 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. Suggestions from shareholders or investors of the Company 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; or

    - by email at ili@ruyangroup.com.

ACCOUNTABILITY AND AUDIT

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

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

The Group's external auditors 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 pages 26 to 27.

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 and non-audit services amounted to HK$1,250,000 and HK$400,000 respectively.

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 to manage the risks to which it is exposed. By their nature the internal control systems 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 laid down for safeguarding the Group's 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. The Group has employed qualified personnel to maintain and monitor the internal control systems of the Group 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. In addition, there is an ongoing process to identify, evaluate and manage significant risks that would be encountered by the Group.

DIRECTORS

Executive Directors

Mr. Wong Yin Sen, aged 56, is one of the co-founders of the Group and currently the Chairman and President of the Group. Mr. Wong is familiar with the commercial, political and social situations in the PRC and has over 23 years of experience in operating enterprises with business in the PRC. After settling down in Hong Kong in 1992, he established and invested in the Group. Mr. Wong has accumulated abundant knowledge in the medical and health care product industry and has extensive experience in enterprise management.

Mr. Hon Lik, aged 53, is a senior pharmacist and one of the co-founders of the Group and currently Chief Executive Officer of the Group. Mr. Hon graduated from Liaoning College of Traditional Chinese Medicine in 1982 and started his career with Liaoning Academy of Traditional Chinese Medicine in the same year. Mr. Hon was promoted to the position of vice-superintendent of Liaoning Academy of Traditional Chinese Medicine in 1990, and was responsible for the company's technology development. Mr. Hon has approximately 23 years of experience in the medical field and invented and patented the technology used in the Chenlong Baoling Longevity Ginseng products.

Mr. Wong Hei Lin, aged 54, is an economist and one of the co-founders of the Group. Currently he is the Vice-President of the Group. Mr. Wong started his career with Liaoning Academy of Traditional Chinese Medicine in 1978. Mr. Wong was promoted to the position of Factory Director of Academy of Traditional Chinese Medicine's honeybee product factory in 1982 and was responsible for the development of the honeybee health products. In 1984, Mr. Wong organised and set up Liaoning Academy of Traditional Chinese Medicine's Pharmaceutical Factory and became the Factory Director for sales. In 1989, Mr. Wong further organised and set up Liaoning Yunda Health Product Co. Ltd. and became the Chairman of the board of directors. Mr. Wong has over 25 years of experience in the health care product industry. Mr. Wong holds a diploma of professional management from the Shenyang United Workers' University.

Mr. Li Kim Hung, aged 53, 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 been working as the financial controller of various companies in Hong Kong for several years.

Independent Non-executive Directors

Mr. Pang Hong, aged 55, worked for around 23 years in various enterprises and government departments in the PRC. After studying for 3 years in the USA, Mr. Pang came to Hong Kong for his career development. Mr. Pang is familiar with the investment environment in the PRC and has extensive experience in the management of PRC companies. Mr. Pang was previously an executive director of Pacmos Technologies Holdings Limited (formerly known as PCL Enterprises Holdings Limited) which is listed on the Stock Exchange. He is currently engaged in private management consultancy. He is also currently an independent non-executive director of SMI Corporation Limited and M Channel Corporation Limited 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 58, 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 assumed the management and supervisory director role in the investment banking field and has accumulated over 23 years' experience in the financial market. He is currently engaged in the private financial consultancy business. Mr. Cheung was appointed as an independent non-executive Director on 20 September 2004.

DIRECTORS (CONTINUED)

Independent Non-executive Directors (continued)

Mr. Ding Xun, aged 48, holds a Bachelor Degree of Economics and an MBA certification from the 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. Mr. Ding has extensive experience in corporate development, and has over 17 years of experience in the commercial management sector. In addition, he is familiar with the economic, financial structure and investment environment of the PRC and Hong Kong. He is currently an Independent Non-Executive Director of Shenzhen International Holdings Limited, which is a company listed on the Stock Exchange. 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 the Group's subsidiary company in Hong Kong. He has over 15 years of experience in the field of financial investment and corporate management. Mr. Miu holds a PhD Degree in system engineering from the Electronics Institute of the Chinese Academy of Science and a Master's Degree in electronic engineering from the Beijing University of Aeronautics and Astronautics. He is currently responsible for the Group's international co-operation, capital market development and operation.

Mr. Scott Fraser is the Vice President of the Group's subsidiary company in Hong Kong. Mr. Fraser holds a Master's Degree in Business Administration from the University of California at Berkeley, Haas School of Business. He has over 19 years of sales and marketing working experience in various multinational corporations in the PRC and the USA, including Intel China Limited as the marketing manager, and Motorola Asia/Pacific Limited as the 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 the Group's subsidiary company in Beijing. Mr. Song obtained his Master's 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 13 years of experience in financial investment and corporate management. He is currently responsible for the Company's internal control governance and co-ordination of the government community policy.

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.

The directors of the Company present this annual report and the audited consolidated financial statements for the year ended 31 December, 2008 (the "Year").

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, 2008 are set out in the consolidated income statement on page 28.

The directors do not recommend the payment of a dividend.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of movements during the Year in the Company's share capital are set out in note 31 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distributions to shareholders as at 31 December, 2008 comprise the share premium, contributed surplus and accumulated losses with a net aggregate amount of approximately HK$1,151,364,000 (2007: HK$1,211,235,000).

DIRECTORS

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

Executive directors:

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

Independent non-executive directors:

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

DIRECTORS (CONTINUED)

In accordance with Articles 87 and 88 of the Company's Articles of Association Messrs. Wong Yin Sen, Wong Hei Lin and Cheung Kwan Hung, Anthony shall retire as directors of the Company by rotation and they are eligible to offer themselves for re-election.

The non-executive directors has no set term of office but are subject to the requirement of retirement by rotation in accordance with the Company's Articles of Association.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December, 2008, the interests and short positions of the directors and their associates in the shares and underlying shares of the Company and its associated corporations, as recorded in the register required to be kept by the Company pursuant to section 352 of the Securities and Futures Ordinance (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") were as follows:

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

Name of director	Capacity	Number of issued ordinary shares of the Company *(Note 1)*	Number of underlying shares in respect of the options granted under the share option scheme of the Company *(Notes 1 & 5)*	Approximate percentage of the issued share capital of the Company
Mr. Wong Yin Sen	Beneficial owner		1,500,000 (L)	0.10%
	Interest of a controlled corporation	825,406,000 (L) *(Note 2)*		54.54%
		351,200,000 (S) *(Note 3)*		23.21%
Mr. Hon Lik	Beneficial owner		1,500,000 (L)	0.10%
	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	Beneficial owner		1,500,000 (L)	0.10%
	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	220,000 (L) *(Note 4)*		0.01%
			15,000,000 (L)	0.99%
Mr. Pang Hong	Beneficial owner	Nil	1,000,000 (L)	0.07%
Mr. Cheung Kwan Hung	Beneficial owner	Nil	1,000,000 (L)	0.07%
Mr. Ding Xun	Beneficial owner	Nil	1,000,000 (L)	0.07%

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES (CONTINUED)

Notes:

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

(2) The 825,406,000 shares comprised 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 and 4.75% by Success Glory Group Limited, a company wholly-owned by Mr. Li Kim Hung.

(3) The short position in 351,200,000 shares was 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) Other than his beneficial interest in 220,000 Shares, Mr. Li Kim Hung was also beneficially interested in 4.75% of Ability Act Investments Limited. Ability Act Investments Limited held 437,406,000 shares in the Company, which represent 28.90% of the entire issued shares in the Company.

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

Long positions in the shares of associated corporations of the Company

Name of directors	Name of associated corporations	Number of shares held	Approximately 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, 2008, 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.

SHARE OPTION SCHEME

In accordance with the terms of the share option scheme, the board of directors of the Company is authorized, at its absolute discretion, to grant options to the participants, including executive directors of the Company 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 expiring on the last day of the five-year period.

SHARE OPTION SCHEME (CONTINUED)

During the year ended 31 December, 2008, share options granted under the share option scheme of the Company adopted on 30 May, 2003 were as follows:

Category of participants	Date of share options granted	No. of share options outstanding as at 1 January, 2008	No. of share options granted during the year	No. of share options outstanding as at 31 December, 2008	Exercise period	Exercise price per share option (HK$)
Directors						
Wong Yin Sen	9 January, 2008	–	1,500,000	1,500,000	11 January, 2008 to 10 January, 2013	0.60
Hon Lik	9 January, 2008	–	1,500,000	1,500,000	4 February, 2008 to 3 February, 2013	0.60
Wong Hei Lin	9 January, 2008	–	1,500,000	1,500,000	4 February, 2008 to 3 February, 2013	0.60
Li Kim Hung	9 January, 2008	–	15,000,000	15,000,000	24 January, 2008 to 23 January, 2013	0.60
Pang Hong	9 January, 2008	–	1,000,000	1,000,000	14 January, 2008 to 13 January, 2013	0.60
Cheung Kwan Hung	9 January, 2008	–	1,000,000	1,000,000	11 January, 2008 to 10 January, 2013	0.60
Ding Xun	9 January, 2008	–	1,000,000	1,000,000	22 January, 2008 to 21 January, 2013	0.60
				22,500,000		
Employees (in aggregate)						
	9 January, 2008	–	22,600,000	22,600,000	6 February, 2008 to 5 February, 2013	0.60
	18 February, 2008	–	1,000,000	1,000,000	17 March, 2008 to 16 March, 2013	0.70
	28 February, 2008	–	6,000,000	6,000,000	27 March, 2008 to 26 March, 2013	0.70
	5 June, 2008	–	2,000,000	2,000,000	3 July, 2008 to 2 July, 2013	0.62
				31,600,000		
Others						
	6 May, 2008	–	2,000,000	2,000,000	3 June, 2008 to 2 June, 2013	0.61
Total				56,100,000		

Notes:

1. There is no vesting period for the 34,500,000 share options granted on 9 January, 2008, whereas the remaining 21,600,000 share options granted are subject to a vesting period of three stages with 33.33% of such options granted becoming exercisable on the first anniversary, another 33.33% becoming exercisable on the second anniversary and the remaining 33.34% becoming exercisable on the third anniversary of the respective dates on which the options were accepted.

2. No option was exercised or cancelled or lapsed during the year.

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 of the Company, as at 31 December, 2008, the persons or companies (other than the directors or the chief executive) who had interests or short positions in the shares or underlying shares of the Company which fall to be disclosed to the Company under Part XV of the SFO, or which were recorded in the register of substantial shareholders required to be kept by the Company under section 336 of the SFO were as follows:

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

Name	**Capacity**	**Number of share 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	68,926,886 (L) 175,600,000 (L)	4.55% 11.60%
Evolution Capital Management, LLC *(Note 5)*	Investment Manager Person having a security interest in shares	56,603,773 (L) 175,600,000 (L)	3.74% 11.60%
Evolution Master Fund Ltd. SPC, Segregated Portfolio M *(Note 5)*	Beneficial owner Person having a security interest in shares	56,603,773 (L) 175,600,000 (L)	3.74% 11.60%

SUBSTANTIAL SHAREHOLDERS (CONTINUED)

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 and 4.75% by Success Glory Limited, a company wholly-owned by Mr. Li Kim Hung.

(4) Pursuant to the corporate substantial shareholder notice filed by Central SAFE Investments Limited on 25 January, 2008, the interest in an aggregate of 244,526,886 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, 2008, 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, 2008.

CONFIRMATION 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 that 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 11 to 16.

EMOLUMENT POLICY

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

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance 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 62%, respectively, of the Group's purchases.

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

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

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

During the year ended 31 December, 2008, 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, 2008.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December, 2008.

AUDITOR

A resolution will be proposed at the forthcoming 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 2009

Deloitte.
德勤

TO THE SHAREHOLDERS OF RUYAN GROUP (HOLDINGS) LIMITED
如烟集團(控股)有限公司
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Ruyan Group (Holdings) Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 28 to 73, which comprise the consolidated balance sheet as at 31 December, 2008, 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, 2008 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

21 April 2009

Consolidated Income Statement

For the year ended 31 December, 2008

	NOTES	2008 HK$'000	2007 HK$'000
Turnover	7	**424,045**	275,382
Cost of goods sold		**(210,120)**	(89,763)
Gross profit		**213,925**	185,619
Other income		**1,655**	19,945
Change in fair value of derivative financial instruments		**(16,810)**	3,080
Change in fair value of held-for-trading investments		**(16,908)**	127
Distribution costs		**(123,798)**	(94,478)
Administrative expenses		**(84,827)**	(63,289)
Research and development expenses		**(25,535)**	(1,311)
(Allowance for) write back of bad and doubtful debts		**(49,426)**	2,800
Impairment loss on property, plant and equipment		**(5,939)**	–
Share-based payment expenses		**(10,510)**	–
Finance costs	9	**(29,201)**	(13,759)
(Loss) profit before tax		**(147,374)**	38,734
Income tax expense	10	**(17,270)**	(4,495)
(Loss) profit for the year	11	**(164,644)**	34,239
Attributable to:			
Equity holders of the parent		**(164,644)**	26,116
Minority interests		**–**	8,123
		(164,644)	34,239
(Loss) earnings per share			
Basic	15	**HK(10.88) cents**	HK1.79 cents

Consolidated Balance Sheet

At 31 December, 2008

	NOTES	2008 HK$'000	2007 HK$'000
Non-current assets			
Property, plant and equipment	16	**98,556**	61,473
Goodwill	17	**3,934**	3,934
Available-for-sales investments	18	**–**	–
Intangible assets	19	**1,823**	2,743
Prepaid lease payments	20	**27,460**	26,427
Deposit		**5,000**	–
		136,773	94,577
Current assets			
Inventories	21	**196,171**	208,867
Trade receivables	22	**169,113**	161,736
Deposits, prepayments and other receivables	23	**78,108**	58,194
Prepaid lease payments	20	**606**	571
Held-for-trading investments	24	**6,792**	266
Bank balances and cash	25	**182,298**	361,316
		633,088	790,950
Current liabilities			
Trade payables	26	**19,684**	16,948
Accruals and other payables	27	**36,486**	63,554
Derivative financial instruments	29	**46,750**	29,940
Convertible Bonds	29	**140,136**	–
Borrowings	28	**6,348**	30,913
Amount due to a minority shareholder	30	**14,785**	–
Taxation payable		**12,206**	1,998
		276,395	143,353
Net current assets		**356,693**	647,597
Total assets less current liabilities		**493,466**	742,174
Non-current liabilities			
Borrowings due after one year	28	**10,259**	17,617
Convertible Bonds	29	**–**	119,740
		10,259	137,357
Net assets		**483,207**	604,817

Consolidated Balance Sheet

At 31 December, 2008

	NOTES	2008 HK$'000	2007 HK$'000
Capital and reserves			
Share capital	31	**151,336**	151,336
Reserves		**331,871**	453,481
Equity attributable to equity holders of the Company		**483,207**	604,817

The financial statements on pages 28 to 73 were approved and authorised for issue by the Board of Directors on 21 April 2009 and are signed on its behalf by:

DIRECTOR

DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December, 2008

	Attributable to equity holders of the Company												
	Share capital* HK$'000	Share premium HK$'000	Shareholders' contribution HK$'000 (note a)	Issuable shares HK$'000 (note c)	Translation reserve HK$'000	Share option reserve HK$'000	Non-distributable reserves HK$'000 (note b)	Merger reserves HK$'000 (note d)	Special reserves HK$'000 (note e)	Accumulated profits HK$'000	Attributable to equity holders of the Company HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January, 2007	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 year	–	–	–	–	–	–	–	–	–	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 (note d)	–	–	–	–	–	–	–	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
Transactions 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
Exchange differences on translation and net income recognised directly in equity	–	–	–	–	32,524	–	–	–	–	–	32,524	–	32,524
Loss for the year	–	–	–	–	–	–	–	–	–	(164,644)	(164,644)	–	(164,644)
Total recognised income for the period	151,336	1,182,410	21,780	–	84,942	–	24,737	(1,016,738)	3,142	21,088	472,697	–	472,697
Recognition of equity-settled share-based payments	–	–	–	–	–	10,510	–	–	–	–	10,510	–	10,510
At 31 December, 2008	151,336	1,182,410	21,780	–	84,942	10,510	24,737	(1,016,738)	3,142	21,088	483,207	–	483,207

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 subsidiaries under the PRC laws and regulations.

(c) Details of issuable shares are set out in note 32.

(d) On 14 June 2007, Wealthy Well Investments Limited, a wholly-owned subsidiary of the Company, acquired from Ability Act Investments Limited ("AAI") the entire issued shares of SBT at a total consideration of HK$1,062,676,000 (the "Acquisition"). As the controlling shareholders of the Company are also the controlling shareholders of AAI, 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 to prepare the consolidated financial statements, assuming that the current group structure had been in existence throughout the periods presented. The merger reserve represents (i) the share capital of SBT beneficially owned by Mr. Wong Yin Sen and Mr. Hon Lik, the controlling shareholders of the Group, (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.

(e) The special reserve of the Group represents reserve arising pursuant to the Group Reorganisation on the basis that the Group Reorganisation had been effected on 1 January, 2000.

Consolidated Cash Flow Statement

For the year ended 31 December, 2008

	2008 HK$'000	2007 HK$'000
OPERATING ACTIVITIES		
(Loss) profit before tax	**(147,374)**	38,734
Adjustments for:		
Depreciation of property, plant and equipment	**7,580**	6,551
Amortisation of prepaid lease payments	**599**	554
Amortisation of intangible assets	**1,079**	1,474
Allowance for inventory obsolescence	**68,661**	4,500
Allowance for (write back of) bad and doubtful debts	**49,426**	(2,800)
Forfeiture of a customer's deposit	**–**	(14,893)
Impairment losses on property, plant and equipment	**5,939**	–
Share-based payment expense	**10,510**	–
Finance costs	**29,201**	13,759
Change in fair value of derivative financial instruments	**16,810**	(3,080)
Change in fair value of held for trading investments	**16,908**	(127)
Interest income	**(895)**	(4,927)
Transaction costs paid in connection with the embedded derivatives	**–**	1,892
Loss on disposal of property, plant and equipment	**6**	997
Operating cash flows before movements in working capital	**58,450**	42,634
(Increase) decrease in inventories	**(44,561)**	40,118
Increase in trade receivables	**(43,956)**	(27,543)
(Increase) decrease in deposits, prepayment and other receivables	**(20,753)**	41,065
Increase in held-for-trading investments	**(23,434)**	(139)
Increase (decrease) in trade payables	**1,811**	(10,780)
Decrease in accruals and other payables	**(30,538)**	(18,757)
Cash (used in) generated from operations	**(102,981)**	66,598
Interest received	**895**	4,927
Interest paid	**(8,805)**	(4,204)
PRC income tax paid	**(7,299)**	(3,853)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	**(118,190)**	63,468
INVESTING ACTIVITIES		
Increase in deposit	**(5,000)**	–
Purchase of property, plant and equipment	**(46,888)**	(6,733)
Proceeds on disposal of property, plant and equipment	**–**	172
NET CASH USED IN INVESTING ACTIVITIES	**(51,888)**	(6,561)

	2008 HK$'000	2007 HK$'000
FINANCING ACTIVITIES		
Repayments of bank borrowings	**(25,001)**	(28,095)
Repayment of other borrowings	**(9,933)**	(6,522)
Repayment of other loans	**–**	(23,862)
Proceeds on issue of ordinary shares	**–**	144,900
Transaction costs paid in connection with the issue of shares	**–**	(9,772)
Transaction costs paid in connection with the liability component of the Convertible Bonds	**–**	(9,164)
Proceeds on issue of Convertible Bonds	**–**	151,000
Increase in amount due to minority	**14,785**	–
NET CASH (USED IN) FROM FINANCING ACTIVITIES	**(20,149)**	218,485
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(190,227)**	275,392
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**361,316**	76,222
Effect of foreign exchange rate changes	**11,209**	9,702
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH	**182,298**	361,316

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 2008.

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 Directors consider that it is appropriate to present the consolidated financial statements in Hong Kong dollars.

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.

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

In the current year, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of financial assets
HK(IFRIC)-Int 11	HKFRS 2: Group and treasury share transactions
HK(IFRIC)-Int 12	Service concession arrangements
HK(IFRIC)-Int 14	HKAS 19-The limit on a defined benefit asset, minimum funding requirements and their interaction

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

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

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

HKFRSs (Amendments)	Improvements to HKFRSs [1]
HKAS 1 (Revised)	Presentation of financial statements [2]
HKAS 23 (Revised)	Borrowing costs [2]
HKAS 27 (Revised)	Consolidated and separate financial statements [3]
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation [2]
HKAS 39 (Amendment)	Eligible hedged items [3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate [2]
HKFRS 2 (Amendment)	Vesting conditions and cancellations [2]
HKFRS 3 (Revised)	Business combinations [3]
HKFRS 7 (Amendment)	Improving disclosures about financial instruments [2]
HKFRS 8	Operating segments [2]
HK(IFRIC)-INT 9 & HKAS 39 (Amendments)	Embedded derivatives [4]
HK(IFRIC)-INT 13	Customer loyalty programmes [5]
HK(IFRIC)-INT 15	Agreements for the construction of real estate [2]
HK(IFRIC)-INT 16	Hedges of a net investment in a foreign operation [6]
HK(IFRIC)-INT 17	Distributions of non-cash assets to owners [3]
HK(IFRIC)-INT 18	Transfers of assets from customers [7]

1 Effective for annual periods beginning on or after 1 January, 2009 except for the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July, 2009.
2 Effective for annual periods beginning on or after 1 January, 2009.
3 Effective for annual periods beginning on or after 1 July, 2009.
4 Effective for annual periods ending on or after 30 June, 2009.
5 Effective for annual periods beginning on or after 1 July, 2008.
6 Effective for annual periods beginning on or after 1 October, 2008.
7 Effective for transfers on or after 1 July, 2009.

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 January, 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. The Directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. 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.

3. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 that are measured in terms of historical cost in a foreign currency are not retranslated.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (Continued)

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

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 a foreign operation is disposed of.

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 liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (Continued)

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is 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.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the year in which it is incurred.
An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the year in which it is incurred.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Loans and receivables

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

Available-for-sale financial assets

The Group's available-for-sale financial assets comprised 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 average credit period from 60 to 270 days, observable changes in national or local economic conditions that correlate with default on receivables.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Impairment of financial assets (Continued)

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

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and other receivables, where the carrying amounts are reduced through the use of an allowance accounts. 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.

3. 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, borrowings and amount due to a minority shareholder are subsequently measured at amortised cost, using the effective interest rate method.

Convertible bonds containing liability component and conversion option derivative

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

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

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Derecognition

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

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

Impairment losses (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.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees

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

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

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the 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 financial instruments

The Directors of the Company use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. The fair values of derivative financial instruments are subject to the limitation of the Binominal model that incorporated market data and involved uncertainty in estimates used by management in the assumptions. The Binominal model requires the input of highly subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate. Details of the assumptions used are disclosed in note 29.

Allowances for bad and doubtful debts

The policy for allowance of bad and doubtful debts of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

5. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group 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.

6. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2008	2007
	HK$'000	HK$'000
Financial assets		
Held-for-trading investments	**6,792**	266
Loans and receivables (including cash and cash equivalents)	**383,269**	543,208
Financial liabilities		
Derivative financial instruments classified as held-for-trading	**46,750**	29,940
Amortised cost	**212,932**	225,113

Financial risk management objectives and policies

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

Market risk

Interest rate risk

Fair 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 changes on interest bearing borrowings.

6. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Cash flow interest rate risk

The Group is also exposed to cash flow interest rate risk in relation to the variable-rate 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 rise.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates of non-derivative instruments as the balance sheet date. For variable-rate borrowings, the analysis is prepared assuming the amount of liability 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 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 loss for the year ended 31 December, 2008 would increase/decrease by HK$166,000 (2007: profit for the year would decrease/increase by HK$389,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate borrowings.

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

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.

No sensitivity analysis on the price Risk of the Convertible Bonds is presented as the market share price of the Company as at 31 December 2008 being HK$0.148 per share was substantially lower than the conversion price of HK$1.35 per share. The fair value of the conversion option and early redemption options embedded in the convertible bonds will not have material fluctuation against the changes of the market share price of the Company.

6. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Currency risk

Certain bank balances of the Group are denominated in foreign currencies which are different from functional currencies of respective group entities. As at 31 December, 2008 and 2007, as bank balances of respective group entities denominated in foreign currency was immaterial, the Group does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise. In view of the immaterial foreign currency amount, no sensitivity analysis was presented

Credit risk

As at 31 December, 2008, 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.

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.

6. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (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$'000	Carrying amount at 31.12.2008 HK$'000
2008							
Non-derivative financial liabilities							
Trade payables	–	19,684	–	–	–	19,684	19,684
Other payables	–	21,720	–	–	–	21,720	21,720
Amount due to a minority shareholder	–	14,785	–	–	–	14,785	14,785
Borrowings							
– variable rate	5.8	719	2,157	4,559	11,028	18,463	16,607
Convertible Bonds (Note)	2.5	1,887	–	181,800	–	183,687	140,136
		58,795	2,157	186,359	11,028	258,339	212,932

	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
2007							
Non-derivative financial liabilities							
Trade payables	–	16,948	–	–	–	16,948	16,948
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	181,800	185,574	119,740
		59,510	1,561	32,740	204,142	297,953	225,113

Note: The bondholder has a right to give notice to the Company requesting the Company to redeem all or some of the Convertible Bonds on 31 July 2009.

6. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value

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

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

- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis 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 fair value of the derivative financial instruments is calculated by using binomial make by an independent professional valuer. Details of the variables and assumptions are stated in note 29.

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.

7. REVENUE

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

8. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

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

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

Segment information about these businesses is presented below.

Business segments

RESULTS

	Health care products		Pharmaceutical products		Ruyan atomizing cigarettes		Total	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment turnover	**104,165**	94,896	**41,983**	44,922	**277,897**	135,564	**424,045**	275,382
Segment result	**(14,206)**	2,969	**6,854**	9,328	**(43,174)**	39,486	**(50,526)**	51,783
Other income							**1,655**	19,945
Charge in fair value of derivative financial instruments							**(16,810)**	3,080
Change in fair value of held-for-trading investments							**(16,908)**	127
Share-based payment expenses							**(10,510)**	–
Unallocated corporate expenses							**(25,074)**	(22,442)
Finance costs							**(29,201)**	(13,759)
(Loss) profit before tax							**(147,374)**	38,734
Income tax expense							**(17,270)**	(4,495)
(Loss) profit for the year							**(164,644)**	34,239

Balance sheet

	Health care products		Pharmaceutical products		Ruyan atomizing cigarettes		Total	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Assets								
Segment assets	**178,919**	182,236	**35,685**	62,412	**334,547**	257,914	**549,151**	502,562
Unallocated corporate assets							**220,710**	382,965
Consolidated total assets							**769,861**	885,527
Liabilities								
Segment liabilities	**14,334**	16,896	**6,696**	17,040	**33,048**	46,566	**54,078**	80,502
Unallocated corporate liabilities							**232,576**	200,208
Consolidated total liabilities							**286,654**	280,710

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

Business segments (Continued)

OTHER INFORMATION

	Health care products		Pharmaceutical products		Ruyan atomizing cigarettes		Unallocated		Total	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Additions of property, plant and equipment	**–**	2,073	**19**	312	**46,869**	4,331	**–**	17	**46,888**	6,733
Depreciation of property, plant and equipment	**1,684**	1,145	**639**	595	**5,252**	4,808	**5**	3	**7,580**	6,551
Amortisation of intangible assets	**–**	–	**1,079**	1,474	**–**	–	**–**	–	**1,079**	1,474
Allowance for (write back) allowance for bad and doubtful debts	**19,831**	(2,800)	**3,350**	–	**25,043**	–	**1,202**	–	**49,426**	(2,800)
Allowance for inventory obsolence	**1,622**	–	**–**	–	**67,039**	4,500	**–**	–	**68,661**	4,500
Impairment loss on property, plant and equipment	**–**	–	**–**	–	**5,939**	–	**–**	–	**5,939**	–
Research and development expenses	**–**	–	**–**	–	**25,535**	1,311	**–**	–	**25,535**	1,311
Loss on disposal of property, plant and equipment	**–**	–	**–**	–	**–**	–	**6**	997	**6**	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.

9. FINANCE COSTS

	2008 HK$'000	2007 HK$'000
The finance costs represent interests on:		
– bank borrowings wholly repayable within five years	**1,825**	2,743
– other borrowings wholly repayable within five years	**3,205**	878
– other loans wholly repayable within five years	**–**	583
– Convertible Notes	**–**	523
– Convertible Bonds (note 29)	**24,171**	9,032
	29,201	13,759

10.INCOME TAX EXPENSE

	2008 HK$'000	2007 HK$'000
PRC Enterprise Income Tax		
– current	**10,221**	4,495
– underprovision in prior years	**7,049**	–
	17,270	4,495

No Hong Kong Profits Tax is payable by the Company or its subsidiaries operating 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 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.

Pursuant to relevant tax rules and regulations in the PRC, Shenyang Jinlong Health Care Products Co., Ltd. ("Shenyang Jinlong") and Shenyang Chenlong Longerity Ginseng Co., Ltd. ("Shenyang Chenlong"), were subjected to PRC Income Tax of 15% and local Income Tax of 3% and the PRC Income Tax of 15% and local Income Tax of 1.5% respectively for year ended 31 December, 2007. Both entities were subjected to the PRC Income Tax of 18% for the year ended 31 December, 2008.

Pursuant to the relevant laws and regulations in the PRC, Jinlong Pharmaceutical Company Limited (" Jinlong Pharmaceutical") was subjected to the PRC income tax of 15% in the previous years and was entitled to an exemption from PRC Income Tax for the two years ended 31 December, 2004, followed by a 50% tax relief for the next three years. Therefore, Jinlong Pharmaceutical was subjected to 7.5% and 18% for the year ended 31 December, 2007 and 31 December, 2008.

10. INCOME TAX EXPENSE (CONTINUED)

Pursuant to the relevant laws and regulations in the PRC, Tianjian SBT Technology & Development Corporation ("Tianjian SBT") was subjected to the PRC Income Tax of 25% and was entitled to an exemption from the PRC Income Tax for the two years ended 31 December, 2008, followed by a 50% tax relief for the next three years. Therefore, Tianjian SBT was not subjected to PRC Income tax for the year ended 31 December, 2007 and 31 December, 2008 respectively.

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

	2008	2007
	HK$'000	HK$'000
(Loss) profit before taxation	**(147,374)**	38,734
Tax (credit) charged at PRC income tax rate of 25% (2007: 33%)	**(36,843)**	12,782
Tax effect of expenses not deductible for tax purpose	**67,543**	8,625
Tax effect of incomes not taxable for tax purpose	**(595)**	(462)
Tax effect of tax losses not recognised	**8,600**	1,548
Underprovision in prior years	**7,049**	–
Income taxed at on concessionary rate	**(24,510)**	(16,276)
Effect of tax exemptions entitled by the Company's subsidiaries	**(3,974)**	(1,722)
Taxation for the year	**17,270**	4,495

At the balance sheet date, the Group has estimated unused tax losses of approximately HK$64,382,000 (2007: HK$29,982,000) available for offset against future profits. No deferred taxation asset has been recognised in respect of the tax losses due to unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

11.(LOSS) PROFIT FOR THE YEAR

	THE GROUP	
	2008	2007
	HK$'000	HK$'000
(Loss) profit for the year has been arrived at after charging (crediting):		
Staff costs		
Directors' emoluments (note 12)		
– fees and other emoluments	**8,368**	6,861
– share-based payment expenses	**5,191**	–
Other staff costs		
– salaries, allowances and bonus	**33,166**	18,543
– share-based payment expenses	**5,319**	–
– retirement benefits scheme contributions	**1,545**	1,536
	53,589	26,940
Allowance for inventory obsolescence (included in cost of sales)	**68,661**	4,500
Amortisation of intangible assets (included in cost of sales)	**1,079**	1,474
Amortisation of prepaid lease payments	**599**	554
Cost of inventories recognised as expense	**140,380**	83,789
Auditor's remuneration	**1,250**	2,271
Depreciation of property, plant and equipment	**7,580**	6,551
Loss on disposal of property, plant and equipment	**6**	997
Operating lease rentals in respect of land and buildings	**11,870**	9,165
Interest income (included in other income)	**(895)**	(4,927)
Forfeiture of a customer's deposit (included in other income)	**–**	(14,893)

12.DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the seven (2007: eight) directors were as follows:

	Wong Yin Sen	**Hon Lik**	**Wong Hei Lin**	**Li Kim Hung**	**Ding Xun**	**Pang Hong**	**Cheung Kwan Hung**	**Total 2008**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Fees	–	–	–	–	150	150	150	450
Other emoluments								
Salaries	2,340	1,560	1,170	1,560	–	–	–	6,630
Other allowances	757	138	106	239	–	–	–	1,240
Retirement benefits scheme contributions	12	12	12	12	–	–	–	48
	3,109	1,710	1,288	1,811	150	150	150	8,368
Share-based payment expenses	346	346	346	3,460	231	231	231	5,191

12. DIRECTORS' EMOLUMENTS (CONTINUED)

	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	1,710	1,350	1,100	1,350	–	–	–	–	5,510
Other allowances	256	136	125	186	–	–	–	–	703
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.

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

13. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2007: four) were Directors of the Company whose emoluments are included in the disclosures in Note 12 above. The emoluments of the remaining one (2007: one) individual were as follows:

	2008 HK$'000	2007 HK$'000
Salaries and other benefits	**1,303**	485
Contributions to retirement benefits schemes	**12**	7
	1,315	492

His emoluments was within the following band:

	2008 No. of employees	2007 No. of employees
HK$nil to HK$1,000,000	**–**	1
HK$1,000,001 to HK$1,500,000	**1**	–

14. DIVIDENDS

No dividend was paid or proposed for both years, nor has any dividend been proposed since the balance sheet date.

15. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	2008 **HK$'000**	2007 HK$'000
(Loss) earnings for the purpose of basic earning per share	**(164,644)**	26,116

	2008 **'000**	2007 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,513,360**	1,457,264

No diluted loss per share has been presented for the year ended 31 December 2008 because the conversion of the convertible bonds would reduce the loss per share and the outstanding share options were anti-dilutive.

No diluted earnings per share has been presented for the year ended 31 December, 2007 as the conversion of the Company's outstanding convertible notes would result in an increase in earnings per share.

16.PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Leasehold improvement HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
THE GROUP						
COST						
At 1 January, 2007	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
Exchange adjustments	3,127	471	737	332	754	5,421
Additions	–	7,399	38,343	797	349	46,888
Disposals	–	–	(43)	–	–	(43)
At 31 December, 2008	**54,181**	**16,799**	**50,964**	**7,008**	**13,450**	**142,402**
DEPRECIATION AND IMPAIRMENT LOSSES						
At 1 January, 2007	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
Exchange adjustments	625	196	459	165	256	1,701
Provided for the year	1,602	2,488	1,554	790	1,146	7,580
Disposals	–	–	(37)	–	–	(37)
Impairment loss (note)	–	5,939	–	–	–	5,939
At 31 December, 2008	12,011	12,551	9,135	3,881	6,268	43,846
NET BOOK VALUES						
At 31 December, 2008	42,170	4,248	41,829	3,127	7,182	98,556
At 31 December, 2007	41,270	5,001	4,768	2,953	7,481	61,473

Note: Impairment loss on leasehold improvement was recognised as a result of the relocation of a plant during the year.

16. 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%

17. GOODWILL

For the purposes of impairment testing, goodwill of HK$3,934,000 (2007: 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.

For impairment test purpose, the Group prepares cash flow forecast derived from the most recent financial budget approved by management for the next one year and extrapolates cash flows for the following four years based on zero growth rate.

The discount rate used in the cash flow forecast is 12% (2007:7%).

18. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

	2008 **HK$'000**	2007 HK$'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.

19. INTANGIBLE ASSETS

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

	Technical know-hows HK$'000
COST	
At 1 January, 2007	10,857
Exchange adjustments	806
At 31 December, 2007	11,663
Exchange adjustments	723
At 31 December, 2008	12,386
AMORTISATION	
At 1 January, 2007	6,889
Exchange adjustments	557
Charge for the year	1,474
At 31 December, 2007	8,920
Exchange adjustments	564
Charge for the year	1,079
At 31 December, 2008	10,563
CARRYING VALUES	
At 31 December, 2008	1,823
At 31 December, 2007	2,743

20. PREPAID LEASE PAYMENTS

The prepaid lease payments comprise:

	2008 **HK$'000**	2007 HK$'000
Leasehold land outside Hong Kong:		
Medium-term lease	**28,066**	26,998
Analysed for reporting purposes as:		
Current portion	**606**	571
Non-current portion	**27,460**	26,427
	28,066	26,998

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

21. INVENTORIES

	2008 HK$'000	2007 HK$'000
Raw materials	**130,081**	76,926
Work in progress	**32,846**	57,432
Finished goods	**33,244**	74,509
	196,171	208,867

22. TRADE RECEIVABLES

	2008 HK$'000	2007 HK$'000
Trade receivables	**218,015**	164,624
Less: Allowance for doubtful debts	**(48,902)**	(2,888)
	169,113	161,736

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:

	2008 HK$'000	2007 HK$'000
0 to 60 days	**76,835**	40,542
61 to 90 days	**34,226**	30,146
91 to 180 days	**38,719**	47,721
181 to 270 days	**17,425**	42,961
Over 270 days but less than 1 year	**1,908**	366
	169,113	161,736

The Group has a policy of allowance for bad and doubtful debts which is based on the evaluation of collectability and age of accounts and on management's judgment 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$165,911,000 (2007: HK$161,370,000) which are neither past due nor impaired at the 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 an aggregate carrying amount of approximately HK$3,202,000 (2007: HK$366,000) 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.

22. TRADE RECEIVABLES (CONTINUED)

Ageing of trade receivables which are past due but not impaired

	2008 HK$'000	2007 HK$'000
0-90 days overdue	**3,202**	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. Accordingly, the Directors believe that there is no further credit provision required in excess of the allowance for bad and doubtful debts.

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

	2008 HK$'000	2007 HK$'000
Balance at beginning of the year	**2,888**	5,295
Impairment losses recognised	**45,410**	–
Write back	**–**	(2,800)
Exchange adjustments	**604**	393
Balance at end of the year	**48,902**	2,888

During the year ended 31 December 2008, the Group made an allowance of HK$45,410,000 (2007: HK$nil) in respect of the trade receivables, which was past due at the reporting date with ageing more than 270 days and slow repayments. The directors considered the related receivables maybe impaired and specified allowance is made.

23. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2008 HK$'000	2007 HK$'000
Deposits	**15,523**	16,153
Prepayments	**30,727**	21,885
Other receivables	**31,858**	20,156
	78,108	58,194

Other receivables are unsecured, interest-free and have no fixed repayment terms.

23. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (CONTINUED)

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

	2008 HK$'000	2007 HK$'000
Balance at beginning of the year	–	–
Charge for the year	4,016	–
Balance at end of the year	4,016	–

24. HELD-FOR-TRADING INVESTMENTS

	2008 HK$'000	2007 HK$'000
Equity securities listed in Hong Kong	923	266
Unlisted unit trust funds (note)	5,869	–
	6,792	266

Note: Included in the amounts is an unlisted unit trust fund amounted to HK$2,839,000 which is denominated in United States Dollars ("USD") other than the functional currency of the respective group entities. The fair value of the unlisted unit trust funds was determined by reference to the quoted market prices from respective financial institution.

25. BANK BALANCES AND CASH

At 31 December, 2008, there were bank balances and cash denominated in Renminbi ("RMB"), the functional currency of the respective group entities, amounting to approximately HK$167,493,000 (2007: HK$156,469,000) and carry interest at market rates which range from 0.36% to 0.72% (2007: 0.7% to 3.2%) per annum. RMB is not freely convertible into other currencies. Other bank balances and cash carry interest at market rates which range from 0.01% to 0.06% (2007: 0.4% to 2.3%) per annum.

26. TRADE PAYABLES

The aged analysis of trade payables is as follows:

	2008 HK$'000	2007 HK$'000
0 to 30 days	3,994	3,431
31 to 60 days	1,159	519
61 to 90 days	274	1,947
Over 90 days but less than 1 year	6,168	9,174
Over 1 year	8,089	1,877
	19,684	16,948

27. ACCRUALS AND OTHER PAYABLES

	2008 HK$'000	2007 HK$'000
Other payables	**21,720**	39,895
Accruals	**9,421**	9,717
Customer deposits	**5,345**	13,942
	36,486	63,554

28. BORROWINGS

	THE GROUP	
	2008 HK$'000	2007 HK$'000
Bank borrowings-unsecured	**–**	23,540
Other borrowings-secured (note a)	**16,607**	24,990
	16,607	48,530
Carrying amounts repayable:		
On demand or within one year	**6,348**	30,913
More than one year but not exceeding two years	**6,002**	6,843
More than two years but not exceeding three years	**4,257**	6,351
More than three years but not exceeding four years	**–**	4,423
	16,607	48,530
Less: Amounts due within one year shown under current liabilities	**(6,348)**	(30,913)
	10,259	17,617
Borrowings comprise:		
Fixed-rate borrowings	**–**	9,630
Floating-rate borrowings	**16,607**	38,900
	16,607	48,530

28.BORROWINGS (CONTINUED)

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

	2008	2007
Effective interest rate per annum:		
Fixed-rate borrowings	**–**	7.5%
Floating-rate borrowings	**5.8%**	7.7% to 8.7%

Note:

(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 with an aggregated carrying value of HK$19,245,000 (HK$18,644,000). No interest has been charged for the other borrowings. The imputed interest rate of the other borrowings for the year ended 31 December, 2008 was 5.8% (2007: 7.7%) per annum.

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 coupon interest 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 adjustments. The conversion price was adjusted to HK$1.35 per share with effect from 31 July 2008 in accordance with the terms and conditions agreed.

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 per share in the event that the volume weighted average price of the Company's shares exceeds 135% of the conversion price for at least 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 dates 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. As the bondholder has a right to give notice to the Company requesting the Company to redeem all or some of the Convertible Bonds on 31 July 2009, the liability component is classified as current liability. If all Convertible Bonds are redeemed on 31 July 2009, the redemption price would be HK$181,800,000.

29. CONVERTIBLE BONDS AND DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(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 bondholder's right to request the Company to early redeem, in whole or in part, the Convertible Bonds.

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

	Liability HK$'000	**Embedded derivatives, representing, conversion option, issuer early redemption option, and investor early redemption option** HK$'000	**Total** HK$'000
At 1 January, 2007	–	–	–
Issued during the year	117,980	33,020	151,000
Transaction costs	(7,272)	–	(7,272)
Interest charged	9,032	–	9,032
Change in fair value	–	(3,080)	(3,080)
At 31 December, 2007	119,740	29,940	149,680
Interest charged (note 9)	24,171	–	24,171
Interest paid	(3,775)	–	(3,775)
Change in fair value	–	16,810	16,810
At 31 December, 2008	140,136	46,750	186,886

29. CONVERTIBLE BONDS AND DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

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

	Embedded conversion option			Issuer early redemption option			Investor early redemption option		
	As at 31.12.2008	As at 31.12.2007	As at 31.7.2007	**As at 31.12.2008**	As at 31.12.2007	As at 31.7.2007	**As at 31.12.2008**	As at 31.12.2007	As at 31.7.2007
Exercise price	**HK$1.35**	HK$1.59	HK$1.59	**HK$2.07**	HK$2.07	HK$2.07	**HK$2.08**	HK$2.08	HK$2.08
Expected volatility (note a)	**51%**	89%	90%	**51%**	89%	90%	**51%**	89%	90%
Option life (note b)	**3.58 years**	4.58 years	5 years	**3.58 years**	4.58 years	5 years	**3.58 years**	4.58 years	5 years
Risk free rate (note c)	**0.92%**	3.02%	3.02%	**0.92%**	3.02%	3.02%	**0.92%**	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, loss of HK$16,810,000 (2007: gain of HK$3,080,000) was recognised to consolidated income statement as change in fair value of derivative financial instruments.

30. AMOUNT DUE TO A MINORITY SHAREHOLDER

Amount due to a minority shareholder is unsecured, non-interest bearing and repayable on demand.

31. SHARE CAPITAL

	Number of shares '000	**Share capital** HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January, 2007	1,000,000	100,000
Increase in authorised share capital (note a)	1,000,000	100,000
At 31 December, 2007 and 2008	2,000,000	200,000
Issued and fully paid:		
At 1 January, 2007	700,800	70,080
Placing of shares (note b)	105,000	10,500
Conversion of convertible notes (note 32)	707,560	70,756
At 31 December, 2007 and 2008	1,513,360	151,336

31. SHARE CAPITAL (CONTINUED)

Note:

(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 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 was credited to the Company's share premium account for the year ended 31 December, 2007.

32. 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 and 2008	–	–

Notes:

(a) Pursuant to the Agreement dated 13 February, 2007, the Company would issue convertible notes which could be converted at any time 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.

33. SHARE-BASED PAYMENTS

The Company has a share option scheme for eligible employees of the Group. Details of the share options outstanding during the current year are as follows:

	Number of share options
Share options granted to directors on 9 January, 2008	34,500,000
Share options granted to employees on 9 January, 2008, 18 February 2008, 28 February 2008, 6 May 2008 and 5 June 2008	21,600,000
Granted during the year and outstanding at 31 December, 2008	56,100,000
Share options exercisable at 31 December, 2008	45,967,000

The closing prices of the Company's shares immediately before 9 January, 2008, 18 February, 2008, 28 February, 2008, 6 May, 2008 and 5 June, 2008, the dates of grant of the 2008 options, were HK$0.61, HK$0.70, HK$0.70, HK$0.61 and HK$0.62 respectively.

In the current year, share options were granted on 9 January, 2008, 18 February, 2008, 28 February, 2008, 6 May, 2008 and 5 June, 2008. The fair values of the options determined at the dates of grant using the Binominal model approximately were HK$10,303,000, HK$248,000, HK$1,497,000, HK$453,000 and HK$460,000 respectively.

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

	9.1.2008	18.2.2008	28.2.2008	6.5.2008	5.6.2008
Grant date share price	HK$0.61	HK$0.70	HK$0.70	HK$0.61	HK$0.62
Exercise price	HK$0.60	HK$0.70	HK$0.70	HK$0.61	HK$0.62
Option life	5 years	5 years	5 years	5 years	5 years
Expected volatility (note)	44.9%	45.5%	45.6%	47.7%	47.2%
Dividend yield	–	–	–	–	–
Risk-free interest rate	2.83%	2.19%	2.33%	2.46%	2.91%

Note: Expected volatility was determined by calculating the historical volatility of the Company's share price.

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

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

In the current year, an amount of share-based payment expenses in respect of its share options of HK$10,510,000 (2007: nil) has been recognised in the consolidated income statement with a corresponding adjustment recognised in the Group's share option reserve.

34. COMMITMENTS

	2008 HK$'000	2007 HK$'000
Expenditure contracted for but not provided in the consolidated financial statements in respect of:		
– acquisition of intangible assets	**229**	278
– acquisition of a subsidiary	**10,000**	–
	10,229	278

35. 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:

	2008 HK$'000	2007 HK$'000
Within one year	**3,255**	3,815
In the second to fifth year	**–**	1,602
	3,255	5,417

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

36. RETIREMENT BENEFITS SCHEMES

The Group operates a mandatory provident fund scheme (the "Scheme") for all qualifying employees of the Group in Hong Kong. The Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by the employee. The maximum amount of contribution is limited to HK$1,000 per each employee. The assets of the Scheme are held separately from those of the Group, in funds under the control of the trustees. During the year, contributions made by the Group to the Scheme amounted HK$216,000 (2007: 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 certain percentage of the monthly salaries of their current employees to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specific contributions.

During the year, contributions made by the Group to the state retirement schemes amounted HK$1,377,000 (2007: HK$1,368,000).

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

37. RELATED PARTY TRANSACTIONS

The Group's managed by the directors and details of the directors' emoluments are disclosed in note 12.

38. PRINCIPAL SUBSIDIARIES AT 31 DECEMBER, 2008 AND 2007

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 2008 %	2007 %	Principal activities
Chenlong Group Limited	BVI/ Hong Kong	US$20,000	**100**	100	Investment holding
集安新華龍參業有限公司 Jian New Wellon Ginseng Industry Co., Ltd. ("Jian New Wellon")	PRC	RMB7,000,000 (note a)	**100**	100	Purchase and sales of raw ginseng
新華龍有限公司 New Wellon Limited	Hong Kong	HK$10,000	**100**	100	Investment holding
瀋陽辰龍保齡參有限公司 Shenyang Chenlong Longevity Ginseng Company Limited ("Shenyang Chenlong")	PRC	US$3,705,000 (note b)	**100**	100	Processing and sales of a series of health care products
瀋陽金龍保健品有限公司 Shenyang Jinlong Health Care Products Company ("Shenyang Jinlong")	PRC	US$1,220,000 (note c)	**100**	100	Processing and sales of ginseng and related
瀋陽金龍藥業有限公司 Shenyang Jinlong Pharmaceutical Co., Ltd. ("Jinlong Pharmaceutical")	PRC	HK$20,000,000 (note d)	**100**	100	Processing and sales of Pharmaceutical products and production of electronics cigarettes components
Success Century Holding Limited ("Success Century")	BVI/ Hong Kong	US$50,000	**100**	100	Investment holding

38. PRINCIPAL SUBSIDIARIES AT 31 DECEMBER, 2008 AND 2007 (CONTINUED)

Name of subsidiary	Place of incorporation or registration/ operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company 2008 %	2007 %	Principal activities
Ruyan Group (Hong Kong) Limited	Hong Kong	HK$100	**100**	100	Investment holding
北京賽波特如烟科技發展有限公司 Beijing SBT Technology Development Co., Ltd. ("BJ SBT")	PRC	US$5,000,000 (note e)	**100**	100	Research and develop production and sales of Ruyan atomizing cigarettes
瀋陽賽波特科技發展有限公司 Shenyang SBT Technology Development Co., Ltd. ("Shenyang SBT")	PRC	US$500,000 (note e)	**100**	100	Research and develop production and sales of Ruyan atomizing cigarettes
天津賽波特如烟科技發展有限公司 Tianjian SBT Technology Development Co., Ltd. ("Tianjian SBT")	PRC	HK$56,000,000 (note e)	**100**	100	Research and develop production and sales of Ruyan atomizing cigarettes
Ruyan America Inc.	State of Minnesota	US$1,000	**51**	51	Sales of Ruyan atomizing cigarettes

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

Notes:

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

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

(c) Shenyang Jinlong is a wholly foreign owned enterprises for a period of 15 years since year 2004.

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

(e) BJ SBT, Shenyang SBT and Tianjian SBT are wholly foreign-owned enterprises for a period of 15 years since year 2005. For the year ended 31 December 2008, the resisted capital for BJ SBT and Tianjian SBT increased to US$5,000,000 (2007: US$500,000) and HK$56,000,000 (2007: HK$36,000,000) respectively.

Financial Summary

	Year ended 31 December,				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
			(restated)	(restated)	(restated)
RESULTS					
Turnover	**424,405**	275,382	402,851	265,057	184,776
(Loss) profit before tax	**(147,374)**	38,734	84,289	43,479	(11,790)
Income tax expense	**(17,270)**	(4,495)	(2,023)	(2,769)	(3,519)
(Loss) profit for the year	**(164,644)**	34,239	82,266	40,710	(15,309)
Attributable to:					
Equity holders of the Company	**(164,644)**	26,116	51,894	28,177	(6,701)
Minority interest	**–**	8,123	30,372	12,533	(8,608)
	(164,644)	34,239	82,266	40,710	(15,309)

	As at 31 December,				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
			(restated)	(restated)	(restated)
ASSETS AND LIABILITIES					
Total assets	**769,861**	885,527	604,605	461,516	393,728
Total liabilities	**(286,654)**	(280,710)	(203,303)	(156,982)	(134,459)
Preferred shares issued by a subsidiary	**–**	–	–	(35,793)	(31,200)
	483,207	604,817	401,302	268,741	228,069
Equity attributable to equity holders of the period	**483,207**	604,817	363,534	252,320	217,179
Minority interest	**–**	–	37,768	16,421	4,302
	483,207	604,817	401,302	268,741	217,179

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.