



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)



# 2009

Interim Report

## EXECUTIVE DIRECTORS

Mr. Wong Yin Sen  
Mr. Hon Lik  
Mr. Wong Hei Lin  
Mr. Li Kim Hung (resigned on 13 August 2009)

## 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 (resigned on 13 August 2009)  
Mr. Chan Yiu Nam  
(appointed on 13 August 2009)

## SOLICITORS

Commerce & Finance Law Office

## REGISTERED OFFICE

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

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

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

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited  
Butterfield House  
68 Fort Street, George Town  
P.O. Box 609  
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](http://www.ruyangroup.com)

## STOCK CODE

329

## BUSINESS REVIEW AND MARKET CONDITIONS

The following is the business review for the six-month ended 30 June 2009 (the “period under review”) presented by the Board.

During the period under review, the Group recorded an unaudited consolidated turnover of approximately HK\$145,286,000, representing a decrease of approximately 37.7% when compared with approximately HK\$233,168,000 in the corresponding period in 2008. The unaudited consolidated loss attributable to shareholders for the period under review was approximately HK\$6,521,000 (corresponding period in 2008: profit of HK\$14,617,000). On these bases, the loss per share for the period under review was approximately HK0.43 cents (earnings per share for corresponding period in 2008: approximately HK0.97 cents).

Since 2008, various well-known multinational corporations for health care products have established their branch factories in the People’s Republic of China (the “PRC”) by way of, among others, acquisition, merger and lease. At present, about 400 imported health care foods have been approved to be successively launched in the market of health care products of the PRC, which formed a great competitive force. Faced with such adverse market situation, the Group adopted measures to adjust the sales structure of the products proactively, increased the sales of the products with higher added-value, decreased the sales of the old products with low gross profit and solidified the newly-developed markets. Thus, stable result was recorded in the sales of health care products as compared to the same period of the previous year.

As for the pharmaceutical business, the Essential Medicine List being introduced by the national authority brought mingled hope and fear for pharmaceutical enterprises. Under this unfavourable situation, only those enterprises which have early consciousness and take rapid action with effective measures are well-positioned to capitalize on opportunities and succeed in the market. Azithromycin Granules (II), a product of the Group, has been listed in the National List of Essential Drugs (2009 Edition) and is exactly a successful example of the policy of new medical reform.

In the first half of 2009, the sales of electronic cigarettes products declined significantly as a result of the growth threat from counterfeit brands and new regulatory restriction imposed on importation of electronic cigarettes products in some overseas markets. Therefore, RUYAN has worked closely with partners and governments to launch core products, explore new markets, strengthen patent protection, address regulatory and other concerns. As a result, regulatory approvals were obtained in France, Spain, Italy, Germany, Sweden, Japan, Russia, Malaysia,

Australia and other countries. Invention patents were granted in Israel during the period under review. Additional lawsuits against illicit manufacturers and vendors of the electronic cigarette were instituted in the PRC and some of them were successfully concluded. Significantly, the patents of a substantial number of counterfeit manufacturers were also invalidated by the Chinese Patent Authority, due to violations of RUYAN's own patents in the PRC.

For the period under review, the Group achieved sales income of approximately HK\$145,286,000, which represents a decrease of 37.7% from the corresponding period in 2008. Of which, the sales income of health care products, pharmaceuticals products and electronic cigarettes was approximately HK\$49,187,000, HK\$18,740,000 and HK\$77,359,000 respectively.

### NEW PRODUCT DEVELOPMENT

Ruyan continues to market the "one-time" use RUYAN Jazz® into the European and Japanese markets. Due to its larger size, RUYAN Jazz® has been promoted as a "Show-me" product to create buzz in bars and other entertainment venues. The product is currently being introduced into pharmacy and convenience store chains on a trial basis in the UK, Greece, Malaysia, Japan and other markets.

The Group has continued its sales of RUYAN e-Gar® and RUYAN e-Pipe in the European markets and elsewhere. Targeted marketing will be conducted to further develop these specialty products.

The RUYAN V10 exemplifies the basic principle of greater and greater smoking simulation without the dangers generated by the 4,000 chemicals released with traditional smoking. The launch of this product will be rolled out to the UK, Korea, continental Europe, Japan and other markets in the second half of the year and is expected to accelerate before the holiday season.

### REGIONAL DEVELOPMENT

In the first half of the fiscal year, further progress was made in terms of marked entry and sales. The Group successfully established presence in some 25 countries. Existing partnerships were further developed in North America, the UK, Korea, Israel, and Turkey. At the same time, progress was made in regulatory and market planning with potential partners in Australia, New Zealand, Scandinavia, Japan, Russia, Bulgaria, Italy, Holland, Spain, Germany, Malaysia and Brazil. With the launch of RUYAN V10, aggressive market penetration will commence in the majority of these markets by the 4th quarter of 2009.

## Ruyan's Progress in North America

The products of two large US-based counterfeit brands were tested by the U.S. Food and Drug Administration in which detectable levels of carcinogens were found. As a result, the importation, promotion and sales of electronic cigarettes have been effectively prohibited into the United States until additional and substantial testing of the products as nicotine-delivery systems has been concluded. Ruyan America, Inc. is working with its dedicated distribution and retail partners on modifying our products that will meet current regulatory and market requirements. Formal introduction of such products is forthcoming.

## Ruyan's Progress in the Republic of Korea

As a result of joint efforts by Ruyan headquarters and the Korean distributor, the Korean market has been opened up and all significant regulatory hurdles have been overcome, including meeting electronic safety standards and the standards of customs and the relevant health authority. Relationships have been established with distribution channels including tobacco outlets, pharmacies, and shopping malls.

## Ruyan's Progress in Other Markets

Ruyan has supported partners in the United States, the UK, Korea, Israel, Turkey and other countries to defend patent and trademark positions in their respective countries. In response, our partners have taken appropriate actions to pursue patent and copyright infringements wherever possible. Additional legal support has been sought through government channels to reinforce Ruyan's position as the authentic and original manufacturer of the e-cigarette and related products.

Regulatory and market-planning activities have been prepared throughout Scandinavia, and for France, Greece and Japan. Talks for market development are underway in Brazil, Spain, Italy, Portugal and Australia/New Zealand.

## LIQUIDITY AND FINANCIAL ANALYSIS

As at 30 June 2009, the Group's net borrowing was HK\$167,980,000 (31 December 2008: HK\$156,743,000), in which approximately 90.2% (31 December 2008: 89.4%) of the borrowings are fixed convertible bonds. Gearing ratio of the Group increased from approximately 32.4% as at 31 December 2008 to approximately 35.1% as at 30 June 2009. This calculation is based on net borrowings mentioned above and shareholders fund of HK\$478,474,000 as at 30 June 2009 (31 December 2008: HK\$483,207,000).

As at the balance sheet date, the Company was in the process of the debt restructuring in respect of the terms of the convertible bonds. Following continuing discussions with the noteholders of the convertible bonds, a proposal for a consensual restructuring of the convertible bonds was presented and the restructuring processes were completed on 28 August 2009. Details of the amendments on the terms of the convertible bonds are stated in the announcements dated 7 August 2009.

The directors believe that the debt restructuring are in the interests of the Company and the Shareholders as a whole as it will provide the Group with overall financial stability for its sustained business recovery going forward.

As at 30 June 2009, the balance of the inventories amounted to HK\$220,871,000, representing an increase of HK\$24,700,000 when compared with the balance of that as at 31 December 2008.

## INTERIM DIVIDEND

The Board resolved not to declare an interim dividend for the six months ended 30 June 2009 (2008: Nil).

## DETAILS OF MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

There was no material acquisitions and disposals of subsidiaries and associated companies during the six months ended 30 June 2009.

## SIGNIFICANT INVESTMENTS HELD

There was no material change in the significant investments held by the Group during the six months ended 30 June 2009.

## CHARGE OF ASSETS

As at 30 June 2009, the Group had no bank deposits pledged to banks (2008: Nil).

## CONTINGENT LIABILITIES

As at 30 June 2009, 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.

## SHORT AND LONG TERM BUSINESS PROSPECTS AND DEVELOPMENT PLANS

### Electronic Cigarette

Ruyan maintains the lead in constructing a robust intellectual property system, in serving serious, reputable distributors and retailers and in engaging serious scientific experts to back up its safety claims and to address the concerns of regulatory and health experts worldwide.

Ruyan has made its own inroads with Internet channels and will engage new strategic partners for Internet Marketing in the 4th quarter of 2009. However, some sizable counterfeit manufacturers and vendors of the electronic cigarette have been and will continue to be addressed through Ruyan's highly-developed intellectual property system. The Group has been taking aggressive legal actions both in the PRC and abroad, through new product development and establishing presence in major, established and reputable distribution channels in Ruyan's existing and target markets.

Ruyan will launch a series of new products in the second half of 2009. Ruyan will first launch additional disposable products intended to rebuild market share by offering affordable, practical options to adult smokers and to those who are affected by 2nd-hand smoke. Ruyan will then continue to expand its product portfolio to include all tiers of the market and will invest aggressively in Research and Development to build out mid-market and higher-end products that appeal to various consumer segments. All of these efforts will be synchronized to reinforce Ruyan's brand position as a trend-setting safe smoking alternative that offers people freedom and choice. Products will be further customized to meet the needs of various markets and tastes.

## Pharmaceuticals and health care products

The inclusion of Azithromycin granules (II) of the Group in the National List of Essential Drugs (2009 Edition) serves as a good opportunity for expanding our market share. Compared with other similar products in the market, the product enjoys advantages in terms of price and quality. We are confident about the sales of our products in the second half of the year.

As for the health care business, the Group has obtained approval for the production of new electronic physio-therapeutical products which carry three functions. Such products will be launched in the market in 2010. In addition, health care products from abroad are increasing their market share due to their higher scientific and technological values, which meet the demands of consumers. The Group will increase its investment in developing new products with high scientific and technological values. Apart from continuously developing new markets, the Group plans to expand our markets where sales activities are conducted by means of direct selling. It is expected that the sales of health care products will grow year by year.

## EMPLOYEE POLICY, PERFORMANCE AND SALARY PROCEDURES

As at 30 June 2009, the Group employs a total of about nine hundred employees in the PRC and Hong Kong.

The remuneration package of the employees is determined with reference to their performance, experience and their positions, duties and responsibilities in the Group. In addition, discretionary bonuses will be paid to staff based on individual and the Group's performance.



## DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2009, the interests and short positions of the directors of the Company (the "Directors") and their associates in the shares and underlying shares of Ruyan Group (Holdings) Limited (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 (Note 4)	220,000 (L)		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%

## 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, 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 director	Name of associated corporation	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 30 June 2009, 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.

## Management Discussion and Analysis

During the six months ended 30 June 2009, 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 2009	No. of share options granted during the period	No. of share options outstanding as at 30 June 2009	Exercise period	Exercise price per share option (HK\$)
<b>Directors</b>						
Wong Yin Sen	9 Jan 2008	1,500,000	–	1,500,000	11 Jan 2008 to 10 Jan 2013	0.60
Hon Lik	9 Jan 2008	1,500,000	–	1,500,000	4 Feb 2008 to 3 Feb 2013	0.60
Wong Hei Lin	9 Jan 2008	1,500,000	–	1,500,000	4 Feb 2008 to 3 Feb 2013	0.60
Li Kim Hung (Note 3)	9 Jan 2008	15,000,000	–	15,000,000	24 Jan 2008 to 23 Jan 2013	0.60
Pang Hong	9 Jan 2008	1,000,000	–	1,000,000	14 Jan 2008 to 13 Jan 2013	0.60
Cheung Kwan Hung	9 Jan 2008	1,000,000	–	1,000,000	11 Jan 2008 to 10 Jan 2013	0.60
Ding Xun	9 Jan 2008	1,000,000	–	1,000,000	22 Jan 2008 to 21 Jan 2013	0.60
				<u>22,500,000</u>		
<b>Employees (in aggregate)</b>						
	9 Jan 2008	22,600,000	–	22,600,000	6 Feb 2008 to 5 Feb 2013	0.60
	18 Feb 2008	1,000,000	–	1,000,000	17 March 2008 to 16 March 2013	0.70
	28 Feb 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
				<u>31,600,000</u>		
<b>Others</b>						
	6 May 2008	2,000,000	–	2,000,000	3 June 2008 to 2 June 2013	0.61
	30 March 2009	–	4,000,000	4,000,000	30 March 2009 to 29 March 2014	0.40
				<u>6,000,000</u>		
			Total	<u>60,100,000</u>		

## Notes:

1. There is no vesting period for the 34,500,000 share options granted on 9 January 2008 and 4,000,000 share options granted on 30 March 2009, 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 period.
3. Subsequent to the balance sheet date, on 13 August 2009, Mr. Li Kim Hung resigned as an executive director of the Company.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

## SUBSTANTIAL SHAREHOLDERS

So far as is known to Directors, as at 30 June 2009, the persons or companies (other than directors or chief executive) who had interests or short positions in the shares or underlying shares of the Company which fall to be disclosed to the Company under Part XV of the SFO, or which were recorded in the register of substantial shareholders required to be kept by the Company under section 336 of the SFO were as follows:

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

Name	Capacity	Number of shares of the Company (Note 1)	Approximate percentage of shareholding
Absolute Target Limited (Note 2)	Beneficial owner	388,000,000 (L)	25.64%
		351,200,000 (S)	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	68,926,886 (L)	4.55%
	Person having a security interest in shares	175,600,000 (L)	11.60%

## Management Discussion and Analysis

Name	Capacity	Number of shares of the Company (Note 1)	Approximate percentage of shareholding
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%

Notes:

- (1) "L" denotes long position and "S" denotes short position.
- (2) Absolute Target Limited is owned as to 46.25%, 42.50% and 11.25% by Mr. Wong Yin Sen, Mr. Hon Lik and Mr. Wong Hei Lin respectively.
- (3) Ability Act Investments Limited is owned as to 4.75% by Goldtools Investments Limited which is wholly-owned by Mr. Wong Hei Lin, 4.75% by Success Glory Group Limited which is wholly-owned by Mr. Li Kim Hung, and 90.5% by Dragon Concept Investments Limited which is owned as to 52.11% and 47.89% by Mr. Wong Yin Sen and Mr. Hon Lik respectively.
- (4) Pursuant to the corporate substantial shareholder notice filed by Central SAFE Investments Limited on 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 30 June 2009, Evolution Capital Management, LLC and Evolution Master Fund Ltd. SPC, Segregated Portfolio M were interested in the same block of an aggregate of 232,203,773 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 30 June, 2009.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the period under review, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities.

### MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the “Model Code”) as set out in the Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the directors. Having made specific enquiry of all directors, they all confirmed that they have complied with the required standard set out in the Model Code during the six months ended 30 June 2009.

### COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions of the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 to the Listing Rules during the period under review, with the following exception as having been elaborated in our 2008 Annual Report:

Under code provision A.4.1 of the Code, non-executive directors should be appointed for specific term and subject to re-election. The non-executive directors of the Company are not appointed for a specific term of office. However, the non-executive directors of the Company are subject to retirement by rotation and re-election at annual general meetings in accordance with the Company’s Articles of Association.

### AUDIT COMMITTEE

The audit committee of the Board (comprising three independent non-executive directors of the Company) and the management of the Company have reviewed the accounting principles and practices adopted by the Group and have discussed the matters related to auditing, financial reporting procedures and internal control, including the review of the interim financial report during the period under review.

The interim financial report during the period under review has been reviewed by the audit committee of the Board and the management of the Company, in accordance with the Statements of Auditing Standards 700 “Engagements to review interim financial reports” issued by the Hong Kong Institute of Certified Public Accountants.

## REMUNERATION COMMITTEE

The remuneration committee of the Board (comprising three independent non-executive directors of the Company) was established in September 2005.

Its duties include making recommendations on the Group's policy and structure for remuneration package of the directors and senior management, evaluation and making recommendations on other employees' benefit arrangements.

## MEMBERS OF THE BOARD

As at the date hereof, the members of the Board are as follows:

### ***Executive Directors***

Wong Yin Sen  
Hon Lik  
Wong Hei Lin

### ***Independent Non-executive Directors***

Pang Hong  
Cheung Kwan Hung, Anthony  
Ding Xun

On behalf of the Board

**Ruyan Group (Holdings) Limited**

**Wong Yin Sen**

*Chairman*

Hong Kong, 23 September 2009

# Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2009

	NOTES	Six months ended	
		30.6.2009 HK\$'000 (unaudited)	30.6.2008 HK\$'000 (unaudited)
Revenue		145,286	233,168
Cost of sales		(60,080)	(67,545)
Gross profit		85,206	165,623
Other income		1,700	1,431
Distribution cost		(49,734)	(68,060)
Administrative expenses		(52,119)	(55,348)
Change in fair value of derivative financial instruments		26,203	(1,550)
Change in fair value of held-for-trading investments		–	(3,707)
Finance costs		(13,879)	(13,927)
(Loss) profit before tax		(2,623)	24,462
Income tax expense	5	(3,898)	(9,845)
(Loss) profit for the period	6	(6,521)	14,617
Other comprehensive income			
Exchange differences arising on translation		880	35,913
Total comprehensive (expense) income for the period		(5,641)	50,530
(Loss) earnings per share	8		
Basic		HK(0.43) cents	HK0.97 cents



# Condensed Consolidated Statement of Financial Position

At 30 June 2009

	NOTES	30.6.2009 HK\$'000 (unaudited)	31.12.2008 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	9	92,278	98,556
Goodwill		3,934	3,934
Available-for-sale investments	10	–	–
Intangible assets		1,274	1,823
Prepaid lease payments		27,095	27,460
Deposit		5,000	5,000
		<b>129,581</b>	136,773
Current assets			
Inventories		220,871	196,171
Trade receivables	11	217,351	169,113
Deposits, prepayment and other receivables		84,986	78,108
Prepaid lease payments		606	606
Held-for-trading investments		–	6,792
Bank balances and cash		98,462	182,298
		<b>622,276</b>	633,088
Current liabilities			
Trade payables	12	13,452	19,684
Accruals and other payables		47,678	36,486
Borrowings		11,532	6,348
Convertible bonds		151,523	140,136
Amount due to a minority shareholder		18,296	14,785
Derivative financial instruments		20,547	46,750
Taxation payable		5,430	12,206
		<b>268,458</b>	276,395
Net current assets		<b>353,818</b>	356,693
Total assets less current liabilities		<b>483,399</b>	493,466
Non-current liabilities			
Borrowings due after one year		4,925	10,259
		<b>478,474</b>	483,207
Capital and reserves			
Share capital	13	151,336	151,336
Reserves		327,138	331,871
		<b>478,474</b>	483,207

# Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2009

	Share capital HK\$'000	Share premium account HK\$'000	Shareholders' contribution HK\$'000 (note a)	Translation reserve HK\$'000	Non- distributable reserves HK\$'000 (note b)	Share option reserve HK\$'000	Merger reserves HK\$'000 (note c)	Special reserves HK\$'000 (note d)	Accumulated profits HK\$'000	Total equity attributable to owners HK\$'000
At 1 January 2008 (audited)	151,336	1,182,410	21,780	52,418	24,737	-	(1,016,738)	3,142	185,732	604,817
Profit for the period	-	-	-	-	-	-	-	-	14,617	14,617
Exchange differences on translation	-	-	-	35,913	-	-	-	-	-	35,913
Total comprehensive income for the period	-	-	-	35,913	-	-	-	-	14,617	50,530
Recognition of equity-settled share-based payments	-	-	-	-	-	9,027	-	-	-	9,027
At 30 June 2008 (unaudited)	151,336	1,182,410	21,780	88,331	24,737	9,027	(1,016,738)	3,142	200,349	664,374
At 1 January 2009 (audited)	<b>151,336</b>	<b>1,182,410</b>	<b>21,780</b>	<b>84,942</b>	<b>24,737</b>	<b>10,510</b>	<b>(1,016,738)</b>	<b>3,142</b>	<b>21,088</b>	<b>483,207</b>
Loss for the period	-	-	-	-	-	-	-	-	(6,521)	(6,521)
Exchange differences on translation	-	-	-	880	-	-	-	-	-	880
Total comprehensive income for the period	-	-	-	880	-	-	-	-	(6,521)	(5,641)
Recognition of equity-settled share-based payments	-	-	-	-	-	908	-	-	-	908
At 30 June 2009 (unaudited)	<b>151,336</b>	<b>1,182,410</b>	<b>21,780</b>	<b>85,822</b>	<b>24,737</b>	<b>11,418</b>	<b>(1,016,738)</b>	<b>3,142</b>	<b>14,567</b>	<b>478,474</b>

## Notes:

- Shareholders' contribution represents the amounts contributed by shareholders of SBT Investment (Holdings) Limited.
- The non-distributable reserve represents statutory reserves appropriated from profit after tax of the Company's subsidiary in the People's Republic of China (the "PRC") under the PRC laws and regulations.
- Details of issuable shares are set out in note 13.
- 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 condensed 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.

# Condensed Consolidated Statement of Cash Flow

For the six months ended 30 June 2009

	Six months ended	
	30.6.2009	30.6.2008
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Net cash (used in) generated from operating activities	<b>(77,031)</b>	16,008
Net cash used in investing activity		
Proceeds from disposal of held for trading investments	<b>6,792</b>	–
Additions of property, plant and equipment	<b>(2,344)</b>	(799)
Net cash from (used in) investing activities	<b>4,448</b>	(799)
Financing activities		
Repayment of bank borrowings	<b>–</b>	(6,915)
Repayment of other borrowings	<b>(718)</b>	(7,335)
Interest paid	<b>(1,888)</b>	(1,888)
New loan raised	<b>–</b>	7,127
Net cash used in financing activities	<b>(2,606)</b>	(9,011)
Net (decrease) increase in cash and cash equivalents	<b>(75,189)</b>	6,198
Cash and cash equivalents at beginning of the period	<b>182,298</b>	361,316
Effect of foreign exchange rate changes	<b>(8,647)</b>	13,985
Cash and cash equivalents at end of the period	<b>98,462</b>	381,499
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	<b>98,462</b>	381,499

# Notes to the Condensed Consolidated Financial Statements

*For the six months ended 30 June 2009*

## 1. GENERAL INFORMATION

Ruyan Group (Holdings) Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

The condensed consolidated financial statements are presented in Hong Kong dollars, and 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 interim financial information 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. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

In preparing the condensed consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group. At 30 June 2009, the Group had convertible bonds of HK\$151,523,000 which were due for repayment or renewal within the next 12 months. The Group incurred a consolidated net loss of HK\$6,521,000 for the six months ended 30 June 2009.

In order to strengthen the capital base of the Group and to improve the Group's financial position, immediate liquidity and cash flows, and otherwise to sustain the Group as a going concern, the directors of the Company have taken the following measures:

- (a) Disposal of certain of its properties; and
- (b) Seeking prospective business partners/investors to strengthen the capital base of the Company.

# Notes to the Condensed Consolidated Financial Statements

*For the six months ended 30 June 2009*

## 2. BASIS OF PREPARATION (CONTINUED)

Progress has been made with regard to the above measures. On the basis that the Group would realize certain of its properties and obtain additional funding from other sources, the directors are satisfied that the Group will be able to meet its financial obligations as and when they fall due for the foreseeable future, and are of the opinion that it is appropriate to prepare the condensed consolidated financial statements on a going concern basis.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any future liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities respectively. The effects of these potential adjustments have not been reflected in the condensed consolidated financial statements.

## 3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statement for the year ended 31 December 2008.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2009

## 3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments or interpretations, ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have effective for the Group's financial year beginning on 1 January 2009.

HKAS 1 (Revised 2007)	Presentation of financial statements
HKAS 23 (Revised 2007)	Borrowing costs
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate
HKFRS 2 (Amendment)	Vesting conditions and cancellations
HKFRS 7 (Amendment)	Improving disclosures about financial instruments
HKFRS 8	Operating segments
HK(IFRIC)-Int 9 & HKAS 39 (Amendments)	Embedded derivatives
HK(IFRIC)-Int 13	Customer loyalty programmes
HK(IFRIC)-Int 15	Agreements for the construction of real estate
HK(IFRIC)-Int 16	Hedges of a net investment in a foreign operation
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

### HKFRS 8 – Operating Segments

HKFRS 8 is a disclosure Standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The predecessor Standard, HKAS 14 Segment Reporting, required the identification of two sets of segments (business and geographical) using a risks and returns approach. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14 (see note 3).

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2009

## 3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### HKAS 1 (Revised) – Presentation of Financial Statements

HKAS 1 (Revised) has introduced a number of terminology changes (including revised titles for the condensed consolidated financial statements) and has resulted in a number of changes in presentation and disclosure. However, HKAS 1 (Revised) has had no impact on the reported results or financial position of the Group.

The adoption of these new or revised standards, amendments and interpretations had no material effect on the results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

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)	Amendment to HKFRS 5 as part of improvements to HKFRS issued in 2008 <sup>1</sup>
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 <sup>2</sup>
HKAS 27 (Revised in 2008)	Consolidated and separate financial statements <sup>3</sup>
HKAS 39 (Amendment)	Eligible hedged items <sup>3</sup>
HKFRS 1	First-time adoption of financial reporting standards <sup>3</sup>
HKFRS 1 (Amendment)	Additional exemptions for first-time adopters <sup>5</sup>
HKFRS 2 (Amendment)	Group cash-settled share-based payment transactions <sup>4</sup>
HKFRS 3 (Revised in 2008)	Business combinations <sup>3</sup>
HK(IFRIC)-INT 17	Distribution of non-cash assets to owners <sup>3</sup>
HK(IFRIC)-INT 18	Transfer of assets from customers <sup>5</sup>

<sup>1</sup> Effective for accounting periods beginning on or after 1 July 2009.

<sup>2</sup> Effective for accounting periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.

<sup>3</sup> Effective for accounting periods beginning on or after 1 July 2009.

<sup>4</sup> Effective for accounting periods beginning on or after 1 January 2010.

<sup>5</sup> Effective for transfer 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.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2009

## 4. SEGMENTAL INFORMATION

### Business segments

The Group has adopted HKFRS 8 Operating Segments with effect from 1 January 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker, being the board of directors of the Company, in order to allocate resources to segments and to assess their performance. In contrast, the predecessor Standard (HKAS 14, Segment Reporting) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach, with the entity's "system of internal financial reporting to key management personnel" serving only as the starting point for the identification of such segments. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14, nor has the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss.

Segment information for the six months ended 30 June 2009 and 2008 about these businesses is presented below.

	Health care products		Pharmaceutical products		Ruyan atomizing cigarettes		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment turnover	49,187	48,838	18,740	20,131	77,359	164,199	145,286	233,168
Segment result	4,106	7,049	5,599	5,823	(16,249)	66,534	(6,544)	79,406
Other income							1,700	1,431
Unallocated corporate expenses							(10,103)	(40,898)
Change in fair value of derivative financial instruments							26,203	(1,550)
Finance costs							(13,879)	(13,927)
(Loss) profit before tax							(2,623)	24,462



# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2009

## 5. INCOME TAX EXPENSE

	Six months ended	
	30.6.2009 HK\$'000	30.6.2008 HK\$'000
Income Tax in the PRC	<b>3,898</b>	9,845

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

PRC Enterprise Income Tax is calculated at the rate prevailing in the relevant districts of the PRC taking relevant tax incentives into account.

## 6. (LOSS) PROFIT FOR THE PERIOD

	Six months ended	
	30.6.2009 HK\$'000	30.6.2008 HK\$'000
(Loss) profit for the period has been arrived at after charging (crediting):		
Advertising expenses	<b>40,855</b>	51,284
Allowance for bad and doubtful debts	<b>17,354</b>	—
Amortisation of intangible assets (included in cost of sales)	<b>499</b>	785
Amortisation of prepaid lease payments	<b>341</b>	292
Depreciation of property, plant and equipment	<b>5,340</b>	3,560
Staff costs (including directors' emoluments and share-based payment expenses)	<b>11,857</b>	19,057
Interest income	<b>(60)</b>	(699)

## 7. DIVIDEND

No dividends were paid, declared or proposed during both periods. The directors do not recommend the payment of an interim dividend.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2009

## 8. (LOSS) EARNINGS PER SHARE

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

	Six months ended	
	30.6.2009 HK\$'000	30.6.2008 HK\$'000
(Loss) earnings for the purpose of basic earnings per share attributable to the owners of the Company	(6,521)	14,617

	Six months ended	
	30.6.2009 '000	30.6.2008 '000
Number of ordinary shares for the purpose of basic earnings per share	1,513,360	1,513,360

No diluted loss per share has been presented for the six months ended 30 June 2009 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 six months ended 30 June 2008 as the conversion of the Company's outstanding convertible notes would result in an increase in earnings per share.

## 9. MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT

During the period, additions and disposal to the Group's property, plant and equipment amounted to approximately HK\$2,344,000 (six months ended 30 June 2008: HK\$799,000) and HK\$5,913,237 (six months ended 30 June 2008: nil) respectively.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2009

## 10.AVAILABLE-FOR-SALE INVESTMENTS

	<b>30.6.2009</b> <b>HK\$'000</b>	31.12.2008 HK\$'000
Available-for-sales investments	<b>1,000</b>	1,000
Less: Impairment loss recognised	<b>(1,000)</b>	(1,000)
	<b>–</b>	–

## 11.TRADE RECEIVABLES

The Group allows an average credit period from 60 days to 270 days to its trade customers. The following is an aged analysis of trade receivables net of allowance of doubtful debts, presented based on invoice date.

	<b>30.6.2009</b> <b>HK\$'000</b>	31.12.2008 HK\$'000
0-60 days	<b>55,791</b>	76,835
61-90 days	<b>28,524</b>	34,226
91-180 days	<b>55,268</b>	38,719
181-270 days	<b>77,768</b>	17,425
Over 270 days but less than 1 year	<b>–</b>	1,908
	<b>217,351</b>	169,113

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2009

## 12. TRADE PAYABLES

The following is an analysis of trade payables by age, presented based on invoice date.

	<b>30.6.2009</b>	31.12.2008
	<b>HK\$'000</b>	HK\$'000
0-30 days	<b>2,124</b>	3,994
31-60 days	<b>1,056</b>	1,159
61-90 days	<b>2,249</b>	274
Over 90 days but less than 1 year	<b>4,780</b>	6,168
Over 1 year	<b>3,243</b>	8,089
	<b>13,452</b>	19,684

## 13. SHARE CAPITAL

	<b>Number of shares</b>	<b>Share capital</b>
	'000	HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1 January 2008, 31 December 2008 and 30 June 2009	2,000,000	200,000
Issued:		
At 1 January 2008, 31 December 2008 and 30 June 2009	1,513,360	151,336

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2009

## 14.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 period are as follows:

	<b>Number of share options</b>
Outstanding at 30 June 2009 and 1 January 2009	<u>45,967,000</u>

In the current period, an amount of share-based payment expenses in respect of its share options of HK\$908,000 (2008: HK\$9,027,000) has been recognised in the condensed consolidated income statement with a corresponding adjustment recognised in the Group's share option reserve.

## 15.RELATED PARTY TRANSACTIONS

The remuneration of key management during the period was HK\$3,986,000 (six months ended 30 June 2008: HK\$10,280,000).

## 16.EVENTS AFTER THE END OF THE INTERIM PERIOD

On 28 August 2009, the Group has completed the restatement on condition of convertible bond, which included the amendment on convertible bond interest rate, maturity date, conversion price and the redemption schedule, etc.