# 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)**

## ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2008

The board of directors (the "Board") of Ruyan Group (Holdings) Limited (the "Company") is pleased to announce that the unaudited condensed consolidated income statement of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2008 together with the comparative figures for the corresponding period in 2007 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

*For the six months ended 30 June 2008*

| | *NOTES* | **Six months ended 30.6.2008 *HK$'000* (unaudited)** | Six months ended 30.6.2007 *HK$'000* (unaudited) |
|---|---|---|---|
| Revenue | | **233,168** | 134,214 |
| Cost of sales | | **(67,545)** | (40,274) |
| Gross profit | | **165,623** | 93,940 |
| Other income | | **1,431** | 808 |
| Distribution and selling expenses | | **(68,060)** | (44,165) |
| Administrative expenses | | **(55,348)** | (25,314) |
| Change in fair value of derivative financial instruments | | **(1,550)** | – |
| Change in fair value of held-for-trading investments | | **(3,707)** | (127) |
| Finance costs | | **(13,927)** | (3,009) |
| Profit before tax | | **24,462** | 22,133 |
| Income tax expense | *5* | **(9,845)** | (2,869) |
| Profit for the period | *6* | **14,617** | 19,264 |
| Attributable to: | | | |
| Equity holders of the parent | | **14,617** | 11,141 |
| Minority interests | | **–** | 8,123 |
| | | **14,617** | 19,264 |
| Earnings per share | *7* | | |
| Basic | | **HK0.97 cents** | HK0.79 cents |

**CONDENSED CONSOLIDATED BALANCE SHEET**

*AT 30 June 2008*

| | NOTES | 30.6.2008 HK$'000 (unaudited) | 31.12.2007 HK$'000 |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | | **62,090** | 61,473 |
| Goodwill | | **3,934** | 3,934 |
| Available-for-sale investments | | – | – |
| Intangible assets | | **2,107** | 2,743 |
| Prepaid lease payments | | **27,763** | 26,427 |
| Deposit for acquisition of properties | | **14,000** | – |
| | | **109,894** | 94,577 |
| Current assets | | | |
| Inventories | | **189,939** | 208,867 |
| Trade receivables | *8* | **217,215** | 161,736 |
| Deposits and other receivables | | **37,481** | 58,194 |
| Prepaid lease payments | | **606** | 571 |
| Held-for-trading investments | | **40,244** | 266 |
| Bank balances and cash | | **381,499** | 361,316 |
| | | **866,984** | 790,950 |
| Current liabilities | | | |
| Trade payables | *9* | **16,324** | 16,948 |
| Accruals and other payables | | **79,734** | 63,554 |
| Borrowings | | **26,360** | 30,913 |
| Amount due to a minority shareholder | | **7,127** | – |
| Derivative financial instruments | | **31,490** | 29,940 |
| Taxation payable | | **10,270** | 1,998 |
| | | **171,305** | 143,353 |
| Net current assets | | **695,679** | 647,597 |
| Total assets less current liabilities | | **805,573** | 742,174 |
| Non-current liabilities | | | |
| Borrowings due after one year | | **12,288** | 17,617 |
| Convertible bonds | | **128,911** | 119,740 |
| | | **141,199** | 137,357 |
| | | **664,374** | 604,817 |
| Capital and reserves | | | |
| Share capital | | **151,336** | 151,336 |
| Reserves | | **513,038** | 453,481 |
| | | **664,374** | 604,817 |

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*FOR THE SIX MONTHS ENDED 30 JUNE 2008*

### 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 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 Renminbi. As the Company is listed in Hong Kong, the directors consider that it is appropriate to present its 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 electronic 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".

### 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 2007, except for the accounting policy set out below:

**Equity-settled share-based payment**

*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 recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share options 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 during the vesting period, 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 accumulated losses.

In the current interim period, the Group has applied, for the first time, the following new interpretations ("new Interpretations") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning on 1 January 2008.

| | |
|---|---|
| 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 these new Interpretations had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

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

| | |
|---|---|
| HKAS 1 (Revised) | Presentation of financial statements[1] |
| HKAS 23 (Revised) | Borrowing costs[1] |
| HKAS 27 (Revised) | Consolidated and separate financial statements[2] |
| HKAS 32 & 1 (Amendments) | Puttable financial instruments and obligations arising on liquidation[1] |
| HKFRS 2 (Amendment) | Vesting conditions and cancellations[1] |
| HKFRS 3 (Revised) | Business combinations[2] |
| HKFRS 8 | Operating segments[1] |
| HK(IFRIC)-INT 13 | Customer loyalty programmes[3] |
| HK(IFRIC)-INT 15 | Agreements for the construction of real estate[1] |
| HK(IFRIC)-INT 16 | Hedges of a net investment in a foreign operation[4] |

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

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

The directors of the Company anticipate that the application of the other new or revised standards or interpretation will have no material impact on the results and the financial position of the Group.

## 4. SEGMENTAL INFORMATION

### Business segments

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

Segment information about these businesses for the six months ended 30 June 2008 and 2007 is presented below.

| | **Health care products** | | **Pharmaceutical products** | | **Electronic cigarettes products** | | **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 | **48,838** | 39,807 | **20,131** | 19,669 | **164,199** | 74,738 | **233,168** | 134,214 |
| Segment result | **7,049** | 3,033 | **5,823** | 6,262 | **66,534** | 32,100 | **79,406** | 41,395 |
| Other income | | | | | | | **1,431** | 808 |
| Unallocated corporate expenses | | | | | | | **(42,448)** | (17,061) |
| Finance costs | | | | | | | **(13,927)** | (3,009) |
| Profit before tax | | | | | | | **24,462** | 22,133 |
| Income tax expense | | | | | | | **(9,845)** | (2,869) |
| Profit for the period | | | | | | | **14,617** | 19,264 |

## 5. INCOME TAX EXPENSE

| | **Six months ended** | |
|---|---|---|
| | **30.6.2008** | 30.6.2007 |
| | ***HK$'000*** | *HK$'000* |
| Enterprise Income Tax in the People's Republic of China (the "PRC") | **9,845** | 2,869 |

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.

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which includes the reduction in corporate profit tax rate by 1% to 16.5% effective from the year of assessment 2008-2009.

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

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulation of the New Law. The New Law and the Implementation Regulation have changed the tax rate from 33% to 25% for the Group's subsidiaries from 1 January 2008.

## 6. PROFIT FOR THE PERIOD

| | Six months ended | |
|---|---|---|
| | **30.6.2008** | 30.6.2007 |
| | ***HK$'000*** | *HK$'000* |
| Profit for the period has been arrived at after charging (crediting): | | |
| Advertising expenses | **51,284** | 32,383 |
| Amortisation of intangible assets (included in cost of sales) | **785** | 720 |
| Amortisation of prepaid lease payments | **292** | 271 |
| Depreciation of property, plant and equipment | **3,560** | 3,838 |
| Staff costs (including directors' emoluments and share-based payment expenses) | **19,057** | 5,553 |
| Interest income | **(699)** | (876) |

## 7. EARNINGS PER SHARE

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

| | Six months ended | |
|---|---|---|
| | **30.6.2008** | 30.6.2007 |
| | ***HK$'000*** | *HK$'000* |
| Earnings for the purpose of basic earnings per share attributable to equity holders of the Company | **14,617** | 11,141 |

| | Six months ended | |
|---|---|---|
| | **30.6.2008** | 30.6.2007 |
| | ***'000*** | *'000* |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **1,513,360** | 1,408,360 |

Diluted earnings per share has not been presented as the conversion of the Company's outstanding convertible notes would result in an increase in profit per share for the six months ended 30 June 2008 and 2007 and the outstanding share options granted during the period were anti-dilutive for the six months ended 30 June 2008.

## 8. 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 at the balance sheet date:

| | **30.6.2008** | 31.12.2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0-60 days | **73,345** | 40,542 |
| 61-90 days | **34,404** | 30,146 |
| 91-180 days | **78,048** | 47,721 |
| 181-270 days | **31,418** | 42,961 |
| Over 270 days but less than 1 year | **–** | 366 |
| | **217,215** | 161,736 |

## 9. TRADE PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

| | **30.6.2008** | 31.12.2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0-30 days | **1,020** | 3,431 |
| 31-60 days | **1,094** | 519 |
| 61-90 days | **1,042** | 1,947 |
| Over 90 days but less than 1 year | **10,329** | 9,174 |
| Over 1 year | **2,839** | 1,877 |
| | **16,324** | 16,948 |

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW AND MARKET CONDITIONS

The following is the six-month business review ended 30 June 2008 (the "period under review") presented by the Board.

During the period under review, the Group recorded an unaudited consolidated turnover of approximately HK$233,168,000, representing an increase of approximately 73.7% when compared with approximately HK$134,214,000 in the corresponding period in 2007. The unaudited consolidated profits attributable to shareholders was approximately HK$14,617,000 in the period under review, representing a decrease of approximately 31.2% from approximately HK$11,141,000 in the corresponding period in 2007. On these bases, the earnings per share for the period under review was approximately HK 0.97 cents (corresponding period in 2007: approximately HK 0.79 cents).

As for health care products, competition in the market of health care products was further intensified in 2008. The Group timely responded to market demands and made improvement in our traditional products. We added new products with four specifications, which provide higher add-on value to cater for different needs of consumers. Among which, the sales of three new products, namely the "6-year", "8-year" and "10-year" increased significantly. Meanwhile, the pre-sale preparation work for new product "參中之寶" is in progress.

As for pharmaceutical business, we have completed tenders in 24 provinces throughout the country, and handled procedures for pricing in 29 provinces and municipalities. End customers in our sales increased to 489 from 402 of 2007. Sales income maintained steady growth when compared with the same period of 2007.

With the lifting of suspension for the pharmaceutical approval in 2007, the State Food and Drug Administration has resumed review and approval procedures. The Company applied for 15 new products, of which 5 passed the Center for Drug Evaluation and entered the next phase for approval.

For sales operation in the first half of 2008, we mainly focused on channel and network construction. We have established 5 offices in key provinces, namely Liaoning, Szechuan, Guangdong, Henan and Shandong, which serve as centers covering the whole country. We also adopted the market development strategy of surrounding the cities with third terminals (the rural area).

As for electronic cigarette business, the Company has applied for a number of patents since April 2003, including invention patents, utility model patents and design patents. Among which two most important invention patents were granted patent certificates by the State Intellectual Property Office on 16 April 2008, and one invention patent was granted patent certificate by the Eurasian Patent Office, European Patent Office and Intellectual Property Office of Singapore respectively.

In April 2008, Ruyan products 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. The Company's e-cigarette was named 2008's most innovative product and its Ruyan Vegas e-cigar was named the most marketable product of the year.

For the period under review, the Group achieved sales income of approximately HK$233,168,000, an increase of 73.7% from the corresponding period in 2007. Of which, the sales income of health care products, pharmaceuticals products and electronic cigarettes was approximately HK$48,838,000, HK$20,131,000 and HK$164,199,000 respectively.

## NEW PRODUCT DEVELOPMENT

Beginning in 2nd quarter of 2008, Ruyan's latest products, **RUYAN** e-Gar® and **RUYAN** Vegas® were introduced to the North American, European, Southeast Asian, Middle-Eastern, Russian, Korean, Israeli and other markets. Initial market feedback has been positive, as the products have mostly filled a need for a safe smoking alternative in venues where smoking bans have been implemented – such as bars, pubs, restaurants, hotels and casinos. Both nicotine and non-nicotine versions of the products have been popular.

Looking ahead to the 2nd-half of the fiscal year, Ruyan will place a strong emphasis on product design – whether from a utility or style perspective – to increase consumer appeal and to accommodate international trends. New products will be announced and launched in the coming months.

## REGIONAL DEVELOPMENT

In the first half of the fiscal year, further progress was made in market-entry in key markets, and sales were achieved throughout the period. Selecting business partners and developing sales channels continue to be the top priority for international business. In the past few months, existing partnerships were further developed in North America, Korea, Israel, Turkey, the United Kingdom and Ireland. At the same time, serious negotiations occurred with partners in the European Union, the Middle East, Australia, Japan, Russia and other countries and territories. New partnerships will be announced in Q4 of 2008.

### Ruyan's Progress in China

The Company initially developed the domestic market in the Eastern and Southern China, and gradually extends to inner regions. The Group intends to establish a base in Xian, Shaanxi for the development of markets in the Western China. After acquiring the office, we shall develop our markets in the western provinces such as Shanxi, Szechuan and Yunnan.

### Ruyan's Progress in North America

The progress made in North America, and in the United States, in particular, are a top achievement for the Company. After months of intensive efforts by Ruyan America, Inc., the regulatory situation for Ruyan has been established.

### Ruyan's Progress in the Republic of Korea

In accordance with agreements made with the Company in September of 2007, the Company's Korean partner paid for its first sizeable order to the Company at the end of December of last year. Working together with the Korean partner, the Korean market has been opened and all significant regulatory hurdles have been overcome, including meeting electronic safety standards and the standards of customs and the relevant health.

### Ruyan's Progress in Other Markets

The Company has supported its partners in the United States, Korea, Israel and other countries to provide critical legal support to defend patent and trademark positions in the respective countries. In response, our partners have taken appropriate actions to pursue patent and copyright infringements wherever possible. Additional legal support was driven through government channels to reinforce Ruyan's position as the authentic and original manufacturer of the e-cigarette 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 Ruyan are now able to proceed again normally. In China, strong actions are underway to stop illegal manufacturing and exports of copycat products. Several websites infringing upon the Ruyan trademark have already been shut down or will be shut down by the end of September.

## LIQUIDITY AND FINANCIAL ANALYSIS

As at 30 June 2008, bank loans of the Group amounted to HK$18,181,000, representing a decrease of HK$5,359,000 as compared to the total outstanding bank loans as at 31 December 2007, all of which were short-term loans due within one year and partial in Renminbi loans. Although Renminbi is under the pressure of potential revaluation, movements of Renminbi were comparatively stable and the Directors do not anticipate to face any major currency exposures, therefore the Group has not arranged any currency hedge. The Group's aggregate finance cost was approximately HK$13,927,000 (corresponding period in 2007: HK$3,009,000). The Group did not use any property as security for such banking facilities, nor was there the use of any financial instruments for hedging purposes. Other borrowings in the sum of HK$20,467,000 (2007: HK$24,990,000) are secured by legal charges over the certain of building and leasehold land of the Group.

Gearing ratio of the Group reduced from approximately 27.8% as at 31 December 2007 to approximately 25.2% as at 30 June 2008. This calculation is based on net borrowings of approximately HK$167,559,000 (31 December 2007: HK$168,270,000) and shareholders fund of approximately HK$664,374,000 (31 December 2007: HK$604,817,000).

As at 30 June 2008, the balance of the inventories amounted to HK$189,939,000, representing a decrease of HK$18,928,000 when compared with the balance of that as at 31 December 2007.

## INTERIM DIVIDEND

The Board resolved not to declare an interim dividend for the six months ended 30 June 2008 (2007: 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 2008.

## SIGNIFICANT INVESTMENTS HELD

There was no material change in the significant investments held by the Group during the six months ended 30 June 2008.

## CHARGE OF ASSETS

As at 30 June 2008, the Group had no bank deposits pledged to banks (2007: Nil).

## CONTINGENT LIABILITIES

As at 30 June 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.

## SHORT AND LONG TERM BUSINESS PROSPECTS AND DEVELOPMENT PLANS

***Electronic Cigarette***

**The Hospitality Industry**

Ruyan America has determined that traditional hospitality outlets, i.e. bars, restaurants and hotels, have suffered significant loss of business, revenue and profitability resulting from smoking bans. The hospitality industry is looking for ways to enhance revenue and deal with the negative ramifications of the smoking bans. Additionally, the distributors to the industry are also looking for ways to add to their product offerings and assist their traditional customers with new, high margin products. The Ruyan products fit the profile that they are looking for. Ruyan America held a major business conference for suppliers to the Atlantic City casino industry in August. Atlantic City casinos will officially ban smoking indoors as of October 2008.

**Traditional Tobacco Outlets**

The single greatest opportunity for rapid growth and acceptance of products is through distribution and sales through traditional tobacco outlets. Recently, Ruyan America became a member of the National Association of Tobacco Outlets, Inc. (NATO). Meetings with the organization and its reaction to demonstrations of the Ruyan product met with significant excitement and enthusiasm on the part of the association. Additionally, NATO, along with Tobacco Outlet Business, the industry's trade journal, sponsors the annual Tobacco Plus Expo, a trade show where members of NATO, over 400 distributors and 2100 retailers, are able to see and order new products. Ruyan America participated in major industry conferences and exhibitions in North America throughout the summer.

**Other Markets**

In the United Kingdom and Ireland, regulatory approvals are in-process, and the Company received its first order in June. Partners' investment in legal and marketing and sales activities in these markets will be significant in the 4th quarter of 2008 and leading into Q1 2009.

Sales from 2nd half year of 2008 came from a variety of markets: the United States (North America), Korea, Israel, Russia, the United Kingdom, Japan, Germany, France, Panama, Malaysia, South Africa, Spain, Italy, the United Arab Emirates, and several other countries. With market-entry of new products proceeding to completion in multiple markets, and with the strong ramp-up in advertising and sales planned in the USA, Korea, Spain, the UK and other EU markets in the coming months, the sales forecast for international sales starting from 2nd half year of 2008 is expected having rapid development.

**Approvals of Market-Entry**

International product testing for both safety and efficacy is nearing completion under the guidance of respected international experts and laboratories. Major results will be announced by the last quarter of 2008.

Although regulatory obstacles to full market-entry for this new product category are formidable to both Ruyan and other competitors, Ruyan remains pro-active with respect to its positioning and acceptance by governments and the public alike. Ruyan is on-track to continue opening key markets with strong partners and innovative new products throughout the remainder of the fiscal year.

**Marketing in China**

The Company developed sales through cooperation with main commercial sales channels in middle and large cities of China. These channels include convenient stores, supermarket in shopping malls, TV shopping, pharmaceutical chains and other specialty sales channels.

**Development of Pharmaceuticals and health care products**

We will continue the unfinished tenders in the second half of 2008, and will mainly handle the procedures for separate pricing of "Azi" with the National Development and Reform Commission. The construction of channels and network will be further developed to penetrate the front lines. We have target for the sales of single item in 2009, and it is our ultimate goal to establish our own sales team and network.

As the overall market for health care products recovers in China, new products have been launched in the health care products market at a faster rate. With the effort we put into the promotion of the new product "參中之寶" and the enhancement of its market awareness, our sales of health care products will increase further. On the basis of maintaining our existing sales model, the Group plans to expand sales through direct sales on TV and expects sales of our health care products will increase year after year.

**EMPLOYEE POLICY, PERFORMANCE AND SALARY PROCEDURES**

As at 30 June 2008, the Group employs a total of about one thousand five hundred employees in the PRC and Hong Kong.

The remuneration package of employees is determined by 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.

## 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 2008.

## 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 2007 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 as well as Messrs. Deloitte Touche Tohmatsu, the auditors of the Company, in accordance with the Statements of Auditing Standards 700 "Engagements to review interim financial reports" issued by the HKICPA.

## PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This announcement is published on the Stock Exchange's website at www.hkexnews.hk and the Company's webstie at www.ruyangroup.com. The 2008 interim report will also be published on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.ruyangroup.com and will be dispatched to the shareholders of the Company.

On behalf of the Board
**Ruyan Group (Holdings) Limited**
**Wong Yin Sen**
*Chairman*

Hong Kong, 23 September 2008

*As at the date of this announcement, the executive Directors are Mr. Wong Yin Sen, Mr. Hon Lik, Mr. Wong Hei Lin, Mr. Li Kim Hung, Isaacs; and the independent non-executive Directors are Mr. Pang Hong, Mr. Cheung Kwan Hung, Anthony and Mr. Ding Xun.*