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 FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2008

The Board of Directors (the "Directors") of Ruyan Group (Holdings) Limited (the "Company") is pleased to announce that the audited consolidated income statement of the Company and its subsidiaries (the "Group") for the year ended 31 December 2008 (the "Year"), together with the comparative figures for the previous year are set out below:

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 December, 2008

	Notes	**2008**	2007
		HK$'000	*HK$'000*
Turnover	*3 & 4*	**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	*5*	**(29,201)**	(13,759)
(Loss) profit before tax		**(147,374)**	38,734
Income tax expense	*6*	**(17,270)**	(4,495)
(Loss) profit for the year	*7*	**(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	*9*	**HK(10.88) cents**	HK1.79 cents

CONSOLIDATED BALANCE SHEET

AT 31 December, 2008

	Notes	**2008**	2007
		HK$'000	*HK$'000*
Non-current assets			
Property, plant and equipment		**98,556**	61,473
Goodwill		**3,934**	3,934
Available-for-sales investments		**–**	–
Intangible assets		**1,823**	2,743
Prepaid lease payments		**27,460**	26,427
Deposit		**5,000**	–
		136,773	94,577
Current assets			
Inventories		**196,171**	208,867
Trade receivables	*10*	**169,113**	161,736
Deposits, prepayments and other receivables		**78,108**	58,194
Prepaid lease payments		**606**	571
Held-for-trading investments		**6,792**	266
Bank balances and cash		**182,298**	361,316
		633,088	790,950
Current liabilities			
Trade payables	*11*	**19,684**	16,948
Accruals and other payables	*12*	**36,486**	63,554
Derivative financial instruments		**46,750**	29,940
Convertible Bonds		**140,136**	–
Borrowings		**6,348**	30,913
Amount due to a minority shareholder		**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		**10,259**	17,617
Convertible Bonds		**–**	119,740
		10,259	137,357
Net assets		**483,207**	604,817
Capital and reserves			
Share capital		**151,336**	151,336
Reserves		**331,871**	453,481
Equity attributable to equity holders of the parent		**483,207**	604,817

Notes:

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")

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. REVENUE

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

4. 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.

Segment information about these businesses is presented below.

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

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.

5. FINANCE COSTS

	2008	2007
	HK$'000	*HK$'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

6. INCOME TAX EXPENSE

	2008	2007
	HK$'000	*HK$'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. The potential impact of the New Law on the subsidiaries of the Company is set out as follows.

Pursuant to the 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 the 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 the 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 the PRC Income Tax of 7.5% and 18% for the year ended 31 December, 2007 and 31 December, 2008 respectively.

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 the 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 tax 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 the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

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

7. (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	**13,559**	6,861
Other staff costs		
– salaries, allowances and bonus (including share-based payment)	**38,485**	18,543
– retirement benefits scheme contributions	**1,545**	1,584
	53,589	26,988
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	**559**	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)

8. DIVIDENDS

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

9. (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	2007
	HK$'000	*HK$'000*
(Loss) earnings for the purposes of basic earning per share	**(164,644)**	26,116

	2008	2007
	'000	*'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.

10. TRADE RECEIVABLES

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

Ageing of trade receivables which are past due but not impaired

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

11. TRADE PAYABLES

The aged analysis of trade payables is as follows:

	2008	2007
	HK$'000	*HK$'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

12. ACCRUALS AND OTHER PAYABLES

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

MANAGEMENT DISCUSSION AND ANALYSIS

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.

- Several lawsuits against suspected illicit manufacturers and vendors of electronic cigarettes were initiated in both the PRC and the United States of America (the "USA").

- 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.

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.

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 the 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 improved. After establishing a solid presence in 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.

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 11mm 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 invention. 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.

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.

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.

AUDIT COMMITTEE

The audit committee 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 final results of the Group for the year ended 31 December 2008.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated balance sheet, consolidated income statement and the related notes thereto for the year ended 31 December 2008 as set out in this announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this announcement.

CORPORATE GOVERNANCE

The Company has adopted the code provisions set out in the Code of Corporate Governance Practices (the "CG Code") set out in the Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and has complied with the CG Code during the year ended 31 December 2008, save for the following deviations:

(i) the independent non-executive Directors and non-executive Director were not appointed for specific terms as required by paragraph A.4.1. of the CG Code but they are subject to the retirement by rotation in accordance with the articles of association of the Company.

SECURITIES TRANSACTIONS BY DIRECTORS

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. Having made specific inquiries to the Directors, all Directors confirmed that they have complied with the Model Code throughout the Year.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

During the year ended 31 December 2008, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the website of the Stock Exchange at www.hkex.com.hk and the website of the Company at www.ruyangroup.com. The 2008 annual report will be dispatched to shareholders of the Company and available on the above websites in due course.

By order of the Board
Ruyan Group (Holdings) Limited
Wong Yin Sen
Chairman

Hong Kong, 21 April 2009

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.