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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, 2009

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, 2009, together with the comparative figures for the previous year are set out below:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December, 2009

	NOTES	**2009**	2008
		HK$'000	*HK$'000*
Revenue	*4*	**97,586**	424,045
Cost of goods sold		**(234,974)**	(210,120)
Gross (loss) profit		**(137,388)**	213,925
Other income		**3,622**	1,655
Change in fair value of derivative financial instruments		**9,643**	(16,810)
Gain on restructuring of convertible bonds		**9,400**	–
Change in fair value of held-for-trading investments		**668**	(16,908)
Distribution costs		**(102,932)**	(123,798)
Administrative expenses		**(62,772)**	(95,337)
Research and development expenses		**(3,701)**	(25,535)
Allowance for bad and doubtful debts		**(95,055)**	(49,426)
Provision for onerous contracts		**(7,974)**	–
Impairment loss on property, plant and equipment		**(20,000)**	(5,939)
Impairment loss on goodwill		**(3,934)**	–
Finance costs	*6*	**(31,432)**	(29,201)
Loss before tax		**(441,855)**	(147,374)
Income tax expense	*7*	**(2,052)**	(17,270)
Loss for the year	*8*	**(443,907)**	(164,644)
Other comprehensive income			
Exchange differences arising on translation to presentation currency		**1,931**	32,524
Other comprehensive income for the year		**1,931**	32,524
Total comprehensive expense for the year		**(441,976)**	(132,120)
Loss per share			
Basic	*10*	**HK(29.33) cents**	HK(10.88) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 December, 2009

	NOTES	**2009**	2008
		HK$'000	*HK$'000*
Non-current assets			
Property, plant and equipment		**46,859**	98,556
Goodwill		**–**	3,934
Available-for-sale investments		**–**	–
Intangible assets		**730**	1,823
Prepaid lease payments		**2,664**	27,460
Deposit for acquisition of properties		**–**	5,000
		50,253	136,773
Current assets			
Inventories		**99,277**	196,171
Trade receivables	*11*	**46,042**	169,113
Deposits, prepayments and other receivables		**48,701**	78,108
Taxation recoverable		**2,818**	–
Amount due from a shareholder		**127**	–
Prepaid lease payments		**77**	606
Held-for-trading investments		**–**	6,792
Bank balances and cash		**24,117**	182,298
		221,159	633,088
Current liabilities			
Trade payables	*12*	**6,602**	19,684
Accruals and other payables	*13*	**35,597**	36,486
Derivative financial instruments		**–**	46,750
Convertible bonds		**152,000**	140,136
Borrowings		**–**	6,348
Amount due to a shareholder		**10,000**	–
Amount due to a minority shareholder		**21,011**	14,785
Taxation payable		**1,995**	12,206
		227,205	276,395
Net current (liabilities) assets		**(6,046)**	356,693
Total assets less current liabilities		**44,207**	493,466
Non-current liabilities			
Borrowings due after one year		**–**	10,259
Net assets		**44,207**	483,207
Capital and reserves			
Share capital		**151,336**	151,336
Reserves		**(107,129)**	331,871
Equity attributable to owners of the Company		**44,207**	483,207

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.

The functional currency of the Company is Renminbi ("RMB"). For the purposes of presenting the consolidated financial statements, the Group adopted Hong Kong dollars as its presentation currency for the convenience of the readers. The Directors consider that Hong Kong dollars can provide more meaningful information to the Company's shareholders.

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

2. GOING CONCERN BASIS

The Group recorded net current liabilities of HK$6,046,000 at the end of the reporting period and the Group incurred a loss attributable to owners of the Company of HK$443,907,000 for the current year. The net current liabilities of HK$6,046,000 at the end of reporting period includes outstanding convertible bonds of HK$152,000,000 which are due for redemption on 31 July, 2010 (details are disclosed in note 30).

In the opinion of the directors, the liquidity and going concern of the Group can be maintained in the coming year, after taking into consideration of the following events after the reporting period:

1. Proposed placing of new convertible bonds

Pursuant to the announcement dated 7 April, 2010 (the "Announcement"), the Company proposed to place new convertible bonds for an aggregate principal amount of HK$250,000,000 by 30 June, 2010. As more fully described in note 39, the placing agent agreed to place the new convertible bonds on a fully underwritten basis. The completion of the placing of the new convertible bonds is subject to the satisfaction of a number of conditions precedent. Major conditions precedent are:

- the placing of new convertible bonds is approved by the shareholders of the Company in an extraordinary general meeting;
- the Company can successfully negotiate with the existing convertible bondholders to redeem the existing convertible bonds for an aggregate settlement price of not more than HK$65 million before the placing of the new convertible bonds;
- the Company's total liabilities (excluding amounts due in respect of the convertible bonds) being not greater than HK$30 million.
- Absolute Target Limited, a shareholder of the Company, can offer to settle its exchangeable bonds before the placing of the new convertible bonds.

The directors consider that the all conditions precedent as set out in the Announcement can be fulfilled before the placing of the new convertible bonds.

2. **Proposed rights issue**

Pursuant to the announcement dated 20 April, 2010, the Company proposed to raise approximately HK$76.66 million to approximately HK$87.60 million before expenses by way of a rights issue of not less than 766,634,916 rights shares and not more than 875,960,769 rights shares at a price of HK$0.10 per rights share.

In the opinion of the directors, in light of the measures and arrangements mentioned above, together with the expected results of other measures and arrangements in progress and as planned, the Group will have sufficient financial resources to satisfy its operations, future working capital and other financing requirements for the foreseeable future. Accordingly, the directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

3. 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)	Amendment to HKFRS 5 as part of improvements to HKFRSs 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 24 (Revised)	Related party disclosures[5]
HKAS 27 (Revised)	Consolidated and separate financial statements[1]
HKAS 32 (Amendment)	Classification of right issues[4]
HKAS 39 (Amendment)	Eligible hedged items[1]
HKFRS 1 (Amendment)	Additional exemptions for first-time adopters[3]
HKFRS 1 (Amendment)	Limited exemption from corporate HKFRS 7 disclosures for first-time adopters[6]
HKFRS 2 (Amendment)	Group cash-settled share-based payment transactions[3]
HKFRS 3 (Revised)	Business combinations[1]
HKFRS 9	Financial instruments[7]
HK(IFRIC)-Int 14 (Amendment)	Prepayments of a minimum funding requirement[5]
HK(IFRIC)-Int 17	Distributions of non-cash assets to owners[1]
HK(IFRIC)-Int 19	Extinguishing financial liabilities with equity instruments[6]

1 Effective for annual periods beginning on or after 1 July, 2009.
2 Amendments that are effective for annual periods beginning on or after 1 July, 2009 and 1 January, 2010, as appropriate.
3 Effective for annual periods beginning on or after 1 January, 2010.
4 Effective for annual periods beginning on or after 1 February, 2010.
5 Effective for annual periods beginning on or after 1 January, 2011.
6 Effective for annual periods beginning on or after 1 July, 2010.
7 Effective for annual periods beginning on or after 1 January, 2013.

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.

HKFRS 9 "Financial instruments" introduces new requirements for the classification and measurement of financial assets and will be effective from January 1, 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

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 consolidated financial statements.

4. REVENUE

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

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Segment revenue and results

The following is an analysis of the Group's revenue and results by operating segment.

	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	**14,973**	104,165	**25,099**	41,983	**57,514**	277,897	**97,586**	424,045
Segment (loss) profit	**(102,806)**	(14,206)	**3,033**	6,854	**(294,808)**	(43,174)	**(394,581)**	(50,526)
Other income							**3,622**	1,655
Charge in fair value of derivative financial instruments							**9,643**	(16,810)
Gain on restricting of convertible bonds							**9,400**	–
Change in fair value of held-for-trading investments							**668**	(16,908)
Impairment of goodwill							**(3,934)**	–
Share-based payment expenses							**(2,976)**	(10,510)
Unallocated corporate expenses							**(32,265)**	(25,074)
Finance costs							**(31,432)**	(29,201)
Loss before tax							**(441,855)**	(147,374)

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment (loss) profit represents the loss from/profit earned by each segment without allocation of central administration costs, Directors' salaries, share option expenses, investment income, finance cost, change in fair value of held-for-trading investments, change in fair value of derivatives financial instruments gain on early redemption of Convertible Bonds, impairment of goodwill and gain on restructuring of convertible bonds. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment:

	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*
ASSETS								
Segment assets	**110,691**	178,919	**41,902**	35,685	**90,844**	334,547	**243,437**	549,151
Bank balance							**24,117**	182,298
Tax recoverable							**2,818**	–
Other receivables							**1,040**	22,686
Goodwill							**–**	3,934
Deposit							**–**	5,000
Held-for-trading investments							**–**	6,792
Consolidated total assets							**271,412**	769,861
LIABILITIES								
Segment liabilities	**7,679**	14,334	**4,210**	6,696	**28,074**	22,789	**39,963**	43,819
Other payables							**33,247**	27,136
Taxation liabilities							**1,995**	12,206
Convertible bonds							**152,000**	140,136
Derivative financial instruments							**–**	46,750
Other borrowing							**–**	16,607
Consolidated total liabilities							**227,205**	286,654

For the purpose of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating segments, other than goodwill, held-for-trading investments certain other receivables, tax recoverable and bank balances.

- all liabilities are allocated to operating segments, other than derivative financial instruments, certain other payable of investment holding company, borrowings, tax liabilities and convertible bonds.

Other segment information

	Health care products		Pharmaceutical products		Ruyan atomizing cigarettes		Segment total		Unallocated		Total	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Amounts included in measure of segment profit or loss or segment assets:												
Additions of non-current assets	**2,270**	–	**107**	19	**826**	46,869	**3,203**	46,888	**–**	–	**3,203**	46,888
Depreciation of property, plant and equipment	**1,970**	1,684	**697**	639	**10,917**	5,257	**13,584**	7,580	**–**	–	**13,584**	7,580
Amortisation of prepaid lease payments	**77**	76	**–**	–	**440**	523	**517**	599	**–**	–	**517**	599
Amortisation of intangible assets	**–**	–	**1,090**	1,079	**–**	–	**1,090**	1,079	**–**	–	**1,090**	1,079
Allowance for inventory obsolescence	**33,990**	1,622	**–**	–	**157,716**	67,039	**191,706**	68,661	**–**	–	**191,706**	68,661
Allowance for bad and doubtful debts	**26,481**	19,831	**–**	3,350	**63,574**	25,043	**90,055**	48,224	**–**	1,202	**90,055**	49,426
(Gain) loss on disposal of property, plant and equipment and prepaid lease payments	**–**	–	**–**	–	**(2,666)**	6	**(2,666)**	6	**–**	–	**(2,666)**	6
Research and development expenses	**–**	–	**–**	–	**3,701**	25,535	**3,701**	25,535	**–**	–	**3,701**	25,535
Impairment loss on property, plant and equipment	**–**	–	**–**	–	**20,000**	5,939	**20,000**	5,939	**–**	–	**20,000**	5,939

Non-current assets comprised of property, plant and equipments, goodwill, available-for-sales investments, intangible assets, prepaid lease payments and deposit for acquisition of properties. Additions of non-current assets for both years are represented by the additions of property, plant and equipments.

Amount regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:

Impairment loss on deposit for acquisition of properties	**–**	–	**–**	–	**–**	–	**–**	–	**5,000**	–	**5,000**	–

Revenue from major products

	2009	2008
	HK$'000	*HK$'000*
Sale of ginseng related products	**14,973**	104,165
Sale of pharmaceutical products	**25,099**	41,983
Sale of Ruyan atomizing cigarettes	**57,514**	277,897
	97,586	424,045

Information about major customers

There is no single customer contributing over 10% of total sales of the Group for the year ended 31 December, 2009 and 2008.

Geographical segments

The Group's operations are mainly located in the People's Republic of China (the "PRC"). Also, the non-current assets, which included property, plant and equipment, goodwill, intangible assets, prepaid lease payments and deposit for acquisition of properties, and the revenue of the Group are substantially located/arisen in the PRC. Accordingly, no analysis by geographical segment is presented.

6. FINANCE COSTS

	2009	2008
	HK$'000	*HK$'000*
The finance costs represent interests on:		
– bank borrowings wholly repayable within five years	**–**	1,825
– other borrowings wholly repayable within five years	**1,862**	3,205
– convertible bonds	**29,570**	24,171
	31,432	29,201

7. INCOME TAX EXPENSE

	2009	2008
	HK$'000	*HK$'000*
PRC Enterprise Income Tax		
– current	**2,051**	10,221
– underprovision in prior years	**1**	7,049
	2,052	17,270

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

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

Pursuant to 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 onwards.

Pursuant to the relevant tax rules and regulations in the PRC, Shenyang Jinlong Pharmaceutical Co., Ltd. ("Jinlong Pharmaceutical") Shenyang Jinlong Health Care Products Co., Ltd. ("Shenyang Jinlong") and Shenyang Chenlong Longerity Ginseng Co., Ltd. ("Shenyang Chenlong"), were subjected to 18% and 20% PRC Income tax for the years ended 31 December, 2008 and 31 December, 2009 respectively.

Pursuant to the relevant laws and regulations in the PRC, Beijing SBT Ruyan Technology & Development Co., Ltd ("Beijing SBT") is subject to PRC income tax of 25% for the years ended 31 December, 2008 and 31 December, 2009 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 year ended 31 December, 2008. Therefore, Tianjian SBT was not subjected to PRC Income tax for the year ended 31 December, 2008 and it is subjected to 25% RPC Income tax for the year ended 31 December, 2009.

The taxation for the year can be reconciled to the loss before taxation per the consolidated statement of comprehensive income, which is shown as follows:

	2009	2008
	HK$'000	*HK$'000*
Loss before taxation	**(441,855)**	(147,374)
Tax at PRC income tax rate of 25% (2008: 25%)	**(110,464)**	(36,843)
Tax effect of expenses not deductible for tax purpose	**25,702**	36,536
Tax effect of incomes not taxable for tax purpose	**(451)**	(595)
Tax effect of deductible temporary differences not recognised	**79,668**	31,007
Tax effect of tax losses not recognised	**9,472**	8,600
Underprovision in prior years	**1**	7,049
Income tax on concessionary rate	**–**	(24,510)
Effect of tax exemptions entitled by the Company's subsidiaries	**(1,876)**	(3,974)
Taxation for the year	**2,052**	17,270

As at the end of the reporting period, the Group has estimated unused tax losses of approximately HK$102,270,000 (2008: HK$64,382,000) available for offset against future profits. No provision of deferred taxation has been recognised in respect of the tax losses due to unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

As at the end of the reporting period, the Group has deductible temporary difference of HK$447,200,000 (31 December, 2008: HK$ 128,528,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as the Directors of the Company is not certain as to when taxable profit will be available against which the deductible temporary difference can be utilised.

8. LOSS FOR THE YEAR

	THE GROUP	
	2009	2008
	HK$'000	*HK$'000*
Loss for the year has been arrived at after charging (crediting):		
Staff costs		
Directors' emoluments		
– fees and other emoluments	**5,033**	8,368
– share-based payment expenses	**–**	5,191
Other staff costs		
– salaries, allowances and bonus	**20,937**	33,166
– share-based payment expenses	**2,976**	5,319
– retirement benefits scheme contributions	**793**	1,545
	29,739	53,589
Amortisation of intangible assets (included in cost of sales)	**1,090**	1,079
Amortisation of prepaid lease payments	**517**	599
Cost of inventories recognised as expense *(note i)*	**231,752**	209,041
Auditors' remuneration	**1,615**	1,250
Depreciation of property, plant and equipment	**13,584**	7,580
(Gain) loss on disposal of property, plant and equipment and prepaid lease payments	**(2,666)**	6
Operating lease rentals in respect of land and buildings	**10,193**	11,870
Interest income (included in other income)	**(98)**	(895)
Impairment loss on deposit for acquisition of properties *(note ii)*	**5,000**	–

Notes:

(i) Included in the cost of inventories recognised as expense is an allowance for inventory obsolescence of HK$191,706,000 (2008: HK$68,661,000). The allowance was provided for certain slow-moving raw materials and finished goods including certain models of Ruyan atomizing cigarettes which had quality problem. (For the year ended 31 December, 2008, the allowance for inventory obsolescence of HK$68,661,000 was provided for those models of Ruyan atomizing cigarettes which were identified by the directors of the Company as obsolescence.)

(ii) A deposit of HK$5,000,000 was paid to an agent for an acquisition of certain properties in PRC during year 2008. As at 31 December, 2009, the directors of the Company assessed the recoverability of the amount and considered that the amount was irrecoverable. Therefore, an allowance for doubtful debt of HK$5,000,000 was provided. The allowance has been included in allowance for bad and doubtful debts as stated in the consolidated statement of comprehensive income.

9. DIVIDENDS

No dividend was paid or proposed for both years, nor has any dividend been proposed since the end of the reporting period.

10. LOSS PER SHARE

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

	2009	2008
	HK$'000	*HK$'000*
Loss for the purpose of basic earnings per share	**(443,907)**	(164,644)

	2009	2008
	'000	*'000*
Number of shares		
Weighted average 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 both years ended 31 December, 2009 and 31 December, 2008 because the conversion of the share options and the convertible bond would reduce the loss per share.

11. TRADE RECEIVABLES

	2009	2008
	HK$'000	*HK$'000*
Trade receivables	**171,174**	218,015
Less: Allowance for doubtful debts	**(125,132)**	(48,902)
	46,042	169,113

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 presented based on the invoice date at the end of the reporting period:

	2009	2008
	HK$'000	*HK$'000*
0 to 60 days	**28,657**	76,835
61 to 90 days	**12,938**	34,226
91 to 180 days	**4,447**	38,719
181 to 270 days	**–**	17,425
Over 270 days but less than 1 year	**–**	1,908
	46,042	169,113

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

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

The receivables with a carrying amount of HK$46,042,000 (2008: HK$165,911,000) which are neither past due nor impaired at the end of the reporting period for which the Group believes that the amounts are considered recoverable.

As at 31 December, 2009, there is no trade receivable balance is past due at the end of the reporting period for which the Group has not provided for impairment loss.

As at 31 December, 2008, included in the Group's trade receivable balance were debtors with aggregate carrying amount of approximately HK$3,202,000 which were past due at the end of the reporting period for which the Group had 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

	2009	2008
	HK$'000	*HK$'000*
0-90 days overdue	**–**	3,202

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 end of 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 doubtful debts

	2009	2008
	HK$'000	*HK$'000*
Balance at beginning of the year	**48,902**	2,888
Impairment losses recognised	**81,213**	45,410
Amounts written off as uncollectible	**(2,477)**	–
Amounts recovered during the year	**(2,309)**	–
Exchange adjustments	**(197)**	604
Balance at end of the year	**125,132**	48,902

Included in the allowance for doubtful debts are individually impaired trade receivables, which were either in the severe financial difficulties or overdue for a long period time. The Group has made full allowance on these receivables and considered that they are generally not recoverable.

12. TRADE PAYABLES

The aged analysis of trade payables presented based on the invoice date at the end of the reporting period is as follows:

	2009	2008
	HK$'000	*HK$'000*
0 to 30 days	**459**	3,994
31 to 60 days	**36**	1,159
61 to 90 days	**22**	274
Over 90 days but less than 1 year	**2,716**	6,168
Over 1 year	**3,369**	8,089
	6,602	19,684

13. ACCRUALS AND OTHER PAYABLES

	2009	2008
	HK$'000	*HK$'000*
Other payables	**25,222**	21,720
Accruals	**8,387**	9,421
Customer deposits	**1,988**	5,345
	35,597	36,486

EXTRACT OF THE INDEPENDENT AUDITOR'S REPORT

"Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December, 2009 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Material uncertainty relating to the going concern basis

Without qualifying our opinion, we draw attention to note 2 to the consolidated financial statements which discloses that the Group incurred a loss attributable to the owners of the Company of HK$441,976,000 for the year ended 31 December, 2009 and as at that date, the Group's consolidated current liabilities exceeded its consolidated current assets by HK$6,046,000. The validity of the going concern assumption on which the consolidated financial statements are prepared is dependent on the successful completion of the receipt of proceeds from the placing of new convertible bonds and rights issue in order to redeem the existing convertible bonds which fall due on 31 July, 2010. The placing of the new convertible bonds is dependent on a number of conditions precedent, as described in note 2 to the consolidated financial statements. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. "

BUSINESS REVIEW

2009 was an extremely difficult year for the Group. As a result of the poor financial performance, the Group faced serious financial problems and was unable to meet full payment of the scheduled redemption under the amended terms of the convertible bonds of the Group.

Turnover of the Group for the year ended 31 December, 2009 decreased by 76.99% to approximately HK$97,586,000. Except for the reason of the global financial crisis, the decrease in turnover was mainly due to the following reasons:

a) The marketing and advertising activities in relation to the Group's electronic cigarette products throughout the year were reduced as compared with previous years. In particular, advertisement and promotion on television were reduced in order to save costs.

b) The sales of electronic cigarettes products declined as a result of the growing threat from counterfeit brands and new regulatory restriction imposed against import of electronic cigarettes products by some overseas countries including but not limited to North America and Israel. Moreover, as quality issue happened in one of our electronic cigarettes products in September 2009, sales return was recorded in the second half of 2009.

c) In October 2009, the GMP license of the Group's factory in Shenyang for health care products expired and the Group failed to renew the license immediately, leading to return of goods from customers during October to December 2009. The GMP licence was subsequently renewed in February 2010.

Loss for the year 2009 increased by 169.62% to approximately HK$443,907,000 and was mainly attributed to the following adverse factors:

1. Provision for impairment of inventory at about HK$191,706,000 was made as a result of technical or commercial obsolescence. Provision was also made for the returned electronic cigarette products and pharmaceutical products due to quality or licensing issues mentioned above.

2. Impairment loss on trade receivables in the amount of HK$78,904,000 was made. It was mainly related to the customers with long outstanding balances. As mentioned above, quality issue happened in our electronic cigarette business and the Group failed to renew the GMP license of its factory immediately after its expiry during the year. As a result, customers have once lost confidence in the Company's products and a number of customers have delayed or even refused to settle their outstanding balances. It is expected that the Group will commence legal proceedings against such customers in order to recover the receivables if the situation does not improve in the coming year.

3. Impairment loss on property, plant and equipment and intangible assets in the amount of HK$20 million was made. It was mainly resulted from the continuing deterioration in the business of the Group due to the decline in turnover, customers' purchase orders, production scale and customer confidence as a consequence of the financial crisis and the factors mentioned above. The decline in production scale significantly reduced the recoverable amounts of the fixed assets which is much lower than their carrying value.

Since 2008, various well-known multinational corporations of health care products have established their branch factories in the People's Republic of China (the "PRC") by way of, among others, acquisition, mergers and leasing. At present, about 400 imported health care foods have been approved and launched in the PRC, generating a great competitive force. Although we are facing a very competitive market situation and the sales volume of health care products declined due to the fact that the GMP license of our factory temporarily expired in October 2009, we will strengthen management of our sales team and develop the sales market, while leveraging on the products and brand advantages of the Company and actively search for the sole agents and regional agents for our products with traditional features. By making better use of our agents, network and mechanism, the sales volume of products is expected to increase in future.

As for the pharmaceutical business, the Essential Medicine List being introduced by the national authority brought mingled hope and fear for pharmaceutical enterprises. Azithromycin Granules (II), a pharmaceutical product of the Group, has been listed in the National List of Essential Drugs (2009 Edition). The sales market has been developed and a new niche for profit growth of the Company is formed.

In 2009, the sales of electronic cigarettes products declined significantly as a result of the growing threat from counterfeit brands and new regulatory restriction imposed on the importation of electronic cigarettes products in some overseas markets. The regulatory status for the Ruyan electronic cigarette around the world is constantly shifting. Classifications and enforcement range from free sales as a smoking alternative to outright bans. In the United States (the "US"), import of electronic cigarettes has not been fully resumed after restrictions were imposed in mid-2009 by the US Customs. Future regulations and related enforcement for this market may change again. Nevertheless, the Group has worked closely with partners and governments to launch core products, explore new markets, strengthen patent protection, address regulatory concerns and compete with illicit brands and manufacturers. As a result, distribution business in North America, the United Kingdom, France, Korea, Malaysia, Israel, Scandinavia, and Greece was improved; and 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 Year 2009. Additional lawsuits against illicit manufacturers and vendors of electronic cigarettes were initiated in PRC and some of the lawsuits were concluded in favour to the Group. 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.

PRODUCT DEVELOPMENT

Azithromycin Granules (II), a pharmaceutical product of the Company, has been listed in the National List of Essential Drugs (2009 Edition). The sales of this product experienced significant growth which forms a new niche for profit growth of the Company. Rosiglitazone Hydrochloride Capsules is the only product among other succeeded in bidding with sales that is expected to grow further. We are confident in the market sales in 2010.

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.

REGIONAL DEVELOPMENT

Pharmaceuticals products

The end-user sales channel of Meinouping Granule, an exclusive patented product, has been developed. Key markets are Beijing, Shanghai, Jiangsu, Sichuan, etc, which serve as centres covering all over the PRC for forming new sales channels with hospitals directly. The Company provides training to these sales agents.

Electronic Cigarette

Throughout 2009, further progress was made in market-entry and sales were achieved in some 25 countries. Existing partnerships were further developed in North America, the United Kingdom and Ireland, Korea, Israel, and Turkey. At the same time, progress was made in regulatory and market planning with potential partners in France, Australia/New Zealand, Scandinavia, Japan, Russia, Bulgaria, Italy, Holland, Spain, Germany, Greece, Peru, Malaysia and Brazil. With the launch of RUYAN V10, aggressive market penetration is expected to commence in majority of these markets by second half of 2010.

Ruyan's Progress in United Kingdom

RUYAN V10 has been introduced into internet and entertainment venues pending final release of an update version of the product. It is expected that in the second half of 2010, Ruyan's partner in the UK and Ireland will heavily ramp-up promotion of RUYAN V10 into pharmacy wholesale and retail channels. At the same time, it is expected that strong legal actions will be taken against numerous counterfeit brands that have been operating for the past 2-3 years.

Ruyan's Progress in PRC

In the PRC, strong actions are underway to stop illegal manufacturing and exports of counterfeit products. Several websites infringing the Ruyan's trademark were shut down in November 2008. RUYAN won two lawsuits against illicit manufacturers of electronic cigarettes in early 2009 and another lawsuit in January 2010. Additionally, the PRC Patent Authority invalidated the invention and utility patents of a large counterfeit manufacturer. RUYAN is expected to conclude two other cases within second quarter of 2010.

Ruyan's Progress in North America

The Group took a responsible and pro-active approach to the reasonable concerns expressed by the U.S. Food and Drug Administration ("US FDA"). Media reports from the US indicated that the US FDA tested two large US-based counterfeit brands and found detectable levels of carcinogens. On the basis of these results, import of electronic cigarettes and cartridges was restricted into the US, pending additional and substantial testing of the products as nicotine-delivery systems. Although the Group had carried out through testings of its products in the PRC and New Zealand in the previous years, we recognized the legitimate concerns expressed by the US government and vowed to continue to take its privileged role as an inventor and intellectual property owner for the electronic cigarette seriously.

At the same time, the Group worked with its dedicated distribution and retail partners to launch alternative products that would meet existing regulatory and market requirements. The products was launched in November 2009 and positive market response was received.

Progress in the Republic of South Korea

Tobacco products are regulated in South Korea. Ruyan will focus on products research & development for Korean market. The Group will also take legal actions against South Korean counterfeit brands after obtaining Ruyan's first Korean patent in 2010.

Progress in Israel

Although the Israeli government responded to the announcements from the US FDA about safety concerns by immediately closing down the importation, promotion and sales of electronic cigarettes in Israel, Ked Electronic Cigarette Ltd's ("KED"), the Company's distributor in Israel has put serious efforts to maintain Ruyan in a strong position in the long run. KED conducted its own toxicology testing and obtained Israel Health Ministry documentation for Ruyan products in 2007-2008, in response to the government concerns at the time. Several illicit brands of electronic cigarettes did not engage in such testing and did not receive such approvals. At the same time, Ruyan's first patent has been granted in Israel, and the second patent is expected to be granted shortly. With the dedicated efforts of KED, Ruyan is in a solid position to recover and accelerate its market activities in Israel. In addition, a favorable government decision is anticipated to come out soon.

Progress in Other Markets

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

In addition to launching new, innovative quality products, selecting business partners and developing sales channels continue to be the top priorities of our international business. Potential partnerships in other countries are moving ahead quickly and will be announced within second quarter to third quarter of 2010 for Scandinavia, France, Spain, Italy, Portugal, Greece, Japan, Brazil and other countries. In some of these companies, discussions and negotiations are underway and are close to reaching conclusion with Ruyan's partners and top retailers in these markets.

PROSPECTS FOR THE YEAR 2010 AND DEVELOPMENT PLAN

Electronic Cigarette

Products Research & Development

Ruyan will launch series of new products in 2010. Ruyan will first launch new series of disposable products to regain market share by offering affordable, practical solutions to adult smokers. Ruyan will then continue to expand its product portfolio and will invest aggressively in R&D to build out mid-to high-end products. Specialty products are planned for 2010 as well. These efforts will reinforce Ruyan's market position as a safe smoking alternative.

Leadership Strategy

Starting from 2010, global alliances with various industries and competent service providers will bring opportunities to serve millions of worldwide consumers and is in line with the philosophy of Ruyan's patented and original invention.

Significantly progress from various ongoing legal actions are expected within and outside the PRC which will accelerate market share in third quarter of 2010. Ruyan has won several cases against counterfeit manufacturers in 2007-2009 on trademark and patent issues. Investments in intellectual property protection are expected to ramp up significantly in 2010.

Finally, Ruyan will continue to work with governments and international organizations around the world to address continuing concerns about safety and regulatory requirements of the electronic cigarette. Scientific testing will be continued. Ruyan strongly believes its invention benefits humankind. We believe 2010-2011 will be another milestone for the Group.

Pharmaceuticals and health care products

In 2010, the Company will continue to speed up its marketing effort. The Company will consolidate the existing market share while promotion strategies are in progress to further the development of the high-end, mid-range and low-end markets. All these strategies will continue to be market-oriented. In the meantime, active and flexible marketing strategies are adopted for different items, regions and customers. Aggressive marketing strategies are implemented for competitive products while stable market development strategies are adopted for high value-added products. We will manage the sales of leading products and further develop the market for new products to further adjust our product mix.

LIQUIDITY AND FINANCIAL ANALYSIS

As at 31 December, 2009, the Group's net borrowing was HK$152,000,000 (31 December, 2008: HK$156,743,000), in which all (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 343.9% as at 31 December, 2009. This calculation is based on total borrowings of approximately HK$152 million (2008: HK$156.7 million) and shareholders fund of approximately HK$44.2 million (2008: HK$483.2 million).

As disclosed in the announcements of the Company dated 27 July, 2009, 7 August, 2009 and 28 August, 2009, the terms of the convertible notes in the principal amount of HK$151,000,000 were amended. During the year ended 31 December, 2009, the Group had breached certain terms and defaulted on the repayment under the amended terms of the convertible bonds. Up to the date of this report, the Company is still unable to meet full payment of the scheduled redemption under the amended terms of the convertible bonds. To address these issues, the Group had been seeking new funds through the following proposed exercises. As disclosed in an announcement of the Company dated 9 February, 2010, a principal amount of HK$12,291,390.72 was converted into 18,909,832 shares of the Company.

On 21 March, 2010, the Company and Chung Nam Securities Limited entered into a placing agreement. The gross proceeds from the placing of the new convertible bonds will be HK$250 million and the net proceeds from the placing of the new convertible bonds (after deducting placing commission and related expenses) are estimated to be approximately HK$234.5 million. It is expected that the net proceeds will be used for (i) up to HK$65 million for the settlement in full of the outstanding amount of the Convertible Notes; and (ii) the remaining amount of the net proceeds for general working capital purposes. Details of the placing have been set out in the Company's announcement dated 7 April, 2010.

On 16 April, 2010, the Company entered into a loan agreement with a lender which is an independent third party (the "lender") in respect of a loan. The lender has agreed to provide to the Company an one year loan facility in the amount of HK$35,000,000 which will be secured by way of a charge over all the shares of Chenlong Group Limited, a wholly-owned subsidiary of the Company. On the same date, the Company had drawdown HK$25,000,000 of this one year loan facility. Details of the loan agreement have been set out in the Company's announcement dated 16 April, 2010.

On 21 April, 2010, the Company announced that it proposed to raise approximately HK$76.66 million to approximately HK$87.60 million by way of rights issue of not less than 766,634,916 shares and not more than 875,960,769 shares at a price of HK$0.10 per rights share.

These actions are not only providing the Group with the funds to repay the liability under the existing convertible bonds, but also place the Company in a far stronger position to carry out the additional financing which we will need for future expansion.

As at 31 December, 2009, the balance of the inventories amounted to HK$99.3 million, representing a decrease of HK$96.9 million when compared with the previous year.

ACQUISITION

There were no material acquisitions and disposals of subsidiaries and associated companies during the year ended 31 December, 2009.

CHARGE OF ASSETS

As at 31 December, 2009, the Group had no bank deposits pledged to banks to secure banking facilities granted to its subsidiaries (2008: nil).

PLEDGE OF ASSETS

To secure the Company's obligations under the convertible notes, SBT Investment (Holdings) Limited, a wholly-owned subsidiary of the Company, povided an unconditional continuing guarantee in favour of the noteholders of the convertible notes for any and all of the Company's obligations under the convertible notes.

Subsequent to the balance sheet date, on 16 April, 2010, the Group had entered into the loan agreement under which substantially all of the Group's assets have been pledged to secure the loan.

CONTINGENT LIABILITIES

As at 31 December, 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.

AUDIT COMMITTEE

The audit committee of the Company and the management of the Company have reviewed the accounting principals 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, 2009.

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, 2009 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, 2009, save for the following deviations:

(i) the independent non-executive Directors 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.

DIRECTORS' SECURITIES TRANSACTIONS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

During the year ended 31 December, 2009, the Company has not redeemed any of its listed securities. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed shares during the year ended 31 December, 2009.

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 2009 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

27 April, 2010

As at the date of this announcement, the executive Directors are Mr. Wong Yin Sen, Mr. Hon Lik, Mr. Wong Hei Lin, Mr. Frank H. Miu and the independent non executive Directors are Mr. Pang Hong, Mr. Cheung Kwan Hung, Anthony, Mr. Ding Xun, Mr. Chung Yuk Lun and Mr. Liu Kwong Sang.