RUYAN GROUP (HOLDINGS) LIMITED
如烟集團(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 329)

2009
Annual Report

Contents

Corporate Information

EXECUTIVE DIRECTORS
Mr. Wong Yin Sen
Mr. Hon Lik
Mr. Wong Hei Lin
Mr. Li Kim Hung (resigned on 13 August 2009)
Mr. Frank H. Miu (appointed on 12 April 2010)

INDEPENDENT NON-EXECUTIVE DIRECTORS
Mr. Pang Hong
Mr. Cheung Kwan Hung
Mr. Ding Xun
Mr. Chung Yuk Lun
(appointed on 14 April 2010)
Mr. Liu Kwong Sang
(appointed on 19 April 2010)

AUDIT COMMITTEE
Mr. Pang Hong
Mr. Cheung Kwan Hung
Mr. Ding Xun
Mr. Chung Yuk Lun
(appointed on 14 April 2010)
Mr. Liu Kwong Sang
(appointed on 19 April 2010)

COMPANY SECRETARY
Mr. Li Kim Hung (resigned on 13 August 2009)
Mr. Chan Yiu Nam
(appointed on 13 August 2009)

SOLICITORS
Commerce & Finance Law Office

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Corporation Limited
Bank of China (Hong Kong) Limited

in the PRC:
China Construction Bank
Shenyang Economic and Technology
Development Zone Branch

WEBSITE
www.ruyangroup.com

STOCK CODE
329

On behalf of the board of directors (the "Board") of Ruyan Group (Holdings) Limited (the "Company"), I am pleased to present this Annual Report for the year ended 31 December 2009 of the Company and its subsidiaries (the "Group").

RESULTS FOR THE YEAR 2009

For the Year 2009, the Group achieved a turnover of HK$97,586,000, representing a decrease of 76.99% from a turnover of HK$424,045,000 for the year 2008. The sales income of health care products, pharmaceutical products and electronic cigarette components for the Year 2009 was HK$14,973,000 (2008: HK$104,165,000 million), HK$25,099,000 (2008: HK$41,983,000 million) and HK$57,514,000 (2008: HK$277,897,000 million) respectively. Despite (i) Azithromycin Grunules (II) ("阿奇霉素顆粒"), an exclusive patented pharmaceutical product of the Group, was listed in the Nation List of Essential Drugs (2009 Edition); (ii) RUYAN Jazz®, one of the Group's electronic cigarette products, was introduced into pharmacy and convenience store chains on a trial basis in a number of countries including the UK, Greece, Malaysia and Japan, the Group's turnover decreased mainly attributable to the threat from counterfeit brands and new regulatory restrictions imposed against the Group's electronic cigarette products.

For the Year 2009, the audited consolidated loss attributable to shareholders of the Company amounted to HK$443,907,000, representing an increase of approximately 169.62% over a loss of HK$164,644,000 for the year 2008. On this basis, the loss per share of the Company for the Year was approximately HK$29.33 cents (2008: approximately HK$10.88 cents). Due to deteriorated sales performance of the Group's electronic cigarette products, substantial provisions of HK$191,706,000 million and HK$78,904,000 were made for impairment loss of related inventory and trade receivables respectively.

PROSPECTS FOR THE YEAR 2010

Looking ahead, with the prevalence of the economic downturn, the operating environment of the Group will continue to face numerous challenges. Although there are signs of economic recovery, which may gradually boost consumer demand towards the Group's products, a prompt rebound of selling price is unlikely to be seen. The Group will continue to monitor the market closely and operate with a cautious and prudent approach including paying extra attention on cost control and reacting flexibly to market changes. While the restructuring on the convertible bonds of the Group is in progress, we will operate with a conservative strategy on sales and investment and at the same time consider potential opportunities to propel our businesses safely. In the coming year, the Group will strive to complete the said restructuring, stabilise its business, retain its position in the industry and maximise returns to shareholders.

DIVIDENDS

No interim dividend was declared for the Year. The Board does not recommend any final dividend for the Year 2009 (2008: nil).

ACKNOWLEDGEMENTS

On behalf of the Board, I would like to express my sincere gratitude to our customers, suppliers and shareholders. My deep appreciation and thankfulness go to all members of the Group and our staff, in particular to my fellow directors and the management, for their continuous support to the Group's development in the Year 2009.

On behalf of the Board
Wong Yin Sen
Chairman

Hong Kong, 27 April, 2010

BUSINESS PERFORMANCE CONDITIONS

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.

BUSINESS PERFORMANCE CONDITIONS *(CONTINUED)*

Business Review *(continued)*

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.

BUSINESS PERFORMANCE CONDITIONS *(CONTINUED)*

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.

BUSINESS PERFORMANCE CONDITIONS *(CONTINUED)*

Regional Development *(continued)*

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.

BUSINESS PERFORMANCE CONDITIONS *(CONTINUED)*

Regional Development *(continued)*

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.

PROSPECTS FOR THE YEAR 2009 AND DEVELOPMENT PLAN *(CONTINUED)*

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.

PROSPECTS FOR THE YEAR 2009 AND DEVELOPMENT PLAN *(CONTINUED)*

Liquidity and financial analysis *(continued)*

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, provided 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.

EMPLOYEE POLICY

As at 31 December 2009, the Group employed a total of about 250 employees in the PRC and Hong Kong.

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

The Board is committed to maintaining and ensuring high standard of corporate governance, as the Board takes the view that high standard of corporate governance lays down a solid foundation for enhancing the high degree of accountability and transparency, maintaining sound and effective internal control, improving the performance of the Group and safeguarding the interests of the shareholders of the Company.

The Board has adopted the code provisions as set out in the Code of Corporate Governance Practice (the "Code Provisions") contained in Appendix 14 to Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). During the Year, the Company has taken appropriate actions to comply with most of the Code Provisions, except for certain deviations in respect of the terms of service of non-executive Directors. Further appropriate actions will be taken by the Company so as to comply with the Code Provisions.

THE BOARD

As at 31 December 2009, the Board comprises three executive Directors, namely, Mr. Wong Yin Sen, Mr. Hon Lik and Mr. Wong Hei Lin and with Mr. Wong Yin Sen acting as the chairman of the Board and three independent non-executive Directors, namely, Mr. Pang Hong, Mr. Cheung Kwan Hung, Anthony and Mr. Ding Xun. After 31 December 2009, the Company has appointed one executive Director, Mr. Frank H. Miu, on 12 April 2010 and two independent non-executive Directors, Mr. Chung Yuk Lun and Mr. Liu Kwong Sang on 14 April 2010 and 19 April 2010 respectively. To the best knowledge of the Company, save for the three executive Directors have interest in the ultimate holding companies of the Company, details of which were disclosed in the section headed "Directors' Interests in Shares and Underlying Shares" of the Directors' Report, there is no financial, business, family or other material/relevant relationship between the Directors.

The Board is responsible for the overall strategic development of the Group. The Board is also responsible for the financial performance and internal control policies and procedures of the Group's business operation.

The Board meets at least two times a year to review the overall development, operation and financial performance, interim results, year end results and other matters of the Company that require approval of the Board. All the Board members are able to access the board papers and other relevant materials and they are given reasonable notice to review board papers and other relevant materials and they are provided with sufficient information as the basis for their decision making. In respect of full Board meeting, and so far as practicable in all other cases, an agenda and accompanying board papers had been despatched to Board members at a reasonable time before the intended date of a board meeting. The Chairman is the one who is responsible for the agenda of the board meetings.

The biographies of the Directors are set out in pages 18 to 20, which demonstrate a diversity of skills, expertise, experience and qualifications. Moreover, the executive Directors informally meets on a regular basis to discuss the daily operation issue of the Company. For those non-executive and independent non-executive Directors who were not personally present in the Company's principal place of business in Hong Kong, conference call was used by the Company to actively take advice from them.

APPOINTMENTS OF DIRECTORS

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

APPOINTMENTS OF DIRECTORS *(CONTINUED)*

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

The independent non-executive Directors also play an important role in the Board. The Board will seek their independent judgment on issues of strategic direction and future development; opinion on connected transactions and risk management on audit issues. Three of the independent non-executive Directors is a qualified accountant in Hong Kong and the rest of them satisfy the requirement of the Listing Rules. The Board has received annual confirmation in respect of the independence of each of the independent non-executive Directors and considers that their independence is in compliance with the Listing Rules during the Year.

The Board will consider the past performance, qualification, general market conditions and the Articles of Association in selecting and recommending candidates for directorships.

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

The Company has received annual confirmation of independence from five independent non-executive Directors in accordance with rule 3.13 of the Listing Rules. The Board has assessed their independence and concluded that all the independent non-executive directors are independent within the ambit of the requirement of the Listing Rules.

BOARD MEETINGS

During the Year, the Board had held twelve Board meetings. Directors were given sufficient time to review documents and information relating to matters that have to be discussed during such meetings.

Details of Directors' attendance at Board meetings held in 2009 are as follows:

Executive Directors	
Mr. Wong Yin Sen	12/12
Mr. Hon Lik	12/12
Mr. Wong Hei Lin	12/12
Mr. Li Kim Hung *(resigned on 13 August 2009)*	6/12 *(Note a)*
Mr. Frank H. Miu *(appointed on 12 April 2010)*	– *(Note b)*
Independent non-executive Directors	
Mr. Pang Hong	11/12
Mr. Cheung Kwan Hung, Anthony	11/12
Mr. Ding Xun	11/12
Mr. Chung Yuk Lun *(appointed on 14 April 2010)*	– *(Note c)*
Mr. Liu Kwong Sang *(appointed on 19 April 2010)*	– *(Note c)*

Notes:

(a) Mr. Li Kim Hung resigned as an executive Director on 13 August 2009 and therefore did not attend any meeting of the Board subsequent to his resignation.

(b) Mr. Frank H. Miu, was appointed as an executive Director on 12 April 2010 and therefore did not attend any meeting of the Board during the Year.

(c) Mr. Chung Yuk Lun and Mr. Liu Kwong Sang were appointed as independent non-executive Directors with effect from 14 April 2010 and 19 April 2010 respectively and therefore did not attend any meeting of the Board during the Year.

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/she has complied with the required standard of dealings set out in the Model Code for the Year.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Positions of the Chairman (held by Mr. Wong Yin Sen) and the Chief Executive Officer (held by Mr. Hon Lik) are held by separate individuals with a view to maintaining an effective segregation of duties in respect of the management of the Board and the day-to-day management of the Group's business.

INDEPENDENT NON-EXECUTIVE DIRECTOR

The independent non-executive Directors bring independent judgment on issues of strategy, performance and risk. The Company has received from each of the independent non-executive Directors written confirmations of their independence pursuant to Rule 3.13 of the Listing Rules. Based upon the said confirmations, the Board considers that all the independent non-executive Directors are independent.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Although none of the existing non-executive Directors (including independent non-executive Directors) are appointed for a specific term, all of the non-executive Directors are subject to retirement and rotation provisions under the Articles of Association.

According to the provisions of the Articles of Association and the Listing Rules, any Director appointed by the Board to fill a casual vacancy shall hold office until the next following general meeting of the Company, and in the case of an addition to the existing Board, until the next following annual general meeting of the Company. Furthermore, every Director, including those appointed for a specific term or holding office as chairman and/or managing Director, is subject to retirement by rotation at least once every three years. Furthermore, any Directors elected by the Company by ordinary resolution to fill a casual vacancy of the Board, or as an addition to the existing Board shall not be taken into account in determining which particular Directors or the number of Directors.

Each newly appointed Director will be reminded of his duties and responsibilities as Directors of listed company under the Listing Rules, related ordinances and relevant requirements of the regulatory bodies in Hong Kong. Orientation meeting with newly appointed Director will be held for briefing on business and operations of the Company is be retired by rotation.

COMMITTEES

As part of the corporate governance practices, the Board has established the following committees, namely, the Audit Committee and the Remuneration Committee.

AUDIT COMMITTEE

The Audit Committee was established in 2001 with adoption of its terms of reference and its current members comprise:

Mr. Cheung Kwan Hung, Anthony *(Chairman)*
Mr. Pang Hong
Mr. Ding Xun
Mr. Chung Yuk Lun (appointed on 14 April 2010)
Mr. Liu Kwong Sang (appointed on 19 April 2010)

The duties of the Audit Committee include review and supervision of the financial reporting process and the Company's internal control policies and procedures.

The appointment of members of the Audit Committee is based on their broad experience in commercial sectors and professional knowledge on financial reporting and management.

The Audit Committee meets regularly to review the financial reporting matters and internal control policies and procedures issues. The Audit Committee also acts as the communication bridge between the Board and the external auditors in relation to the planning and scope of audit work. The interim results and the year end results of the Group for the Year have been reviewed by the Audit Committee.

For the Year, the Audit Committee held five meetings and the attendance records of the meetings are shown below.

REMUNERATION COMMITTEE

The Remuneration Committee was established in 2005 with adoption of its terms of reference and its current members include:

Mr. Pang Hong *(Chairman)*
Mr. Cheung Kwan Hung, Anthony
Mr. Ding Xun
Mr. Chung Yuk Lun (appointed on 14 April 2010)
Mr. Liu Kwong Sang (appointed on 19 April 2010)

The duties of the Remuneration Committee include making recommendations on the Company's policy and structure for remuneration package of the Directors and senior management, evaluating and making recommendations on other employee benefit arrangements.

The appointment of members of the Remuneration Committee is based on their broad experience in the commercial section and knowledge in the general economy conditions.

For the Year, the Remuneration Committee held one meeting and the attendance record of the meeting is shown below.

ATTENDANCE RECORD AT BOARD COMMITTEE MEETINGS

The following table shows the attendance of Directors at meetings of the Remuneration Committee and the Audit Committee during the Year:

Directors	Number of meeting attended/ Number of meeting held	
	Remuneration Committee	Audit Committee
Independent non-Executive Directors		
Mr. Pang Hong	1/1	5/5
Mr. Cheung Kwan Hung, Anthony	1/1	5/5
Mr. Ding Xun	1/1	5/5
Mr. Chung Yuk Lun *(Note)*	–	–
Mr. Liu Kwong Sang *(Note)*	–	–

Note: Mr. Chung Yuk Lun and Mr. Liu Kwong Sang were appointed as members of Audit Committee and Remuneration Committee with effect from 14 April 2010 and 19 April 2010 respectively and therefore did not attend any meeting of the Audit Committee and Remuneration Committee during the Year.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

In determining the remuneration level and packages to the Directors and senior management, the Company took into account the prevailing market practice and trends and to reflect on time commitment, duties and responsibilities of the Directors and senior management and their contribution to the Group.

INVESTOR RELATIONSHIP AND COMMUNICATION

The Company is committed to a policy of open and regular communication and reasonable disclosure of information to its shareholders and investors. The annual general meeting is the principal forum for formal dialogue with shareholders of the Company where the Board members are available to answer questions about specific resolutions being proposed at the meeting.

Information of the Group is also disseminated to the shareholders of the Company and investors in the following manners:

- Delivery of the interim reports and annual reports to all shareholders of the Company and other interested parties;

- Publication of announcements on the interim results and year end results on the website of the Stock Exchange and the website of the Company; and issue and publication of other announcements and shareholders' circulars in accordance with the continuing disclosure obligation under the Listing Rules; and

INVESTOR RELATIONSHIP AND COMMUNICATION *(CONTINUED)*

- Price sensitive information is disclosed to the public by way of announcement as required by the Listing Rules.

- Enquiries and suggestions from shareholders of the Company or investors are welcome through the following channels to the company secretary of the Company:

    - by mail to the Company's principal place of business in Hong Kong at 15th Floor, Hong Kong and Macau Building, Nos. 156-157 Connaught Road Central, Hong Kong

    - by telephone at telephone number (852) 2858 4999

    - by fax at fax number (852) 2547 9221

    - by email at mchan@ruyangroup.com

ACCOUNTABILITY AND AUDIT

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

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

The Group's external auditors are Deloitte Touche Tohmatsu for the Year and they will hold office until the forthcoming annual general meeting of the Company. The annual consolidated financial statements of the Group for the Year have been audited by Deloitte Touche Tohmatsu. The statement of the auditors about their responsibilities on the Group's financial statements is set out in the Independent Auditor's Report on pages 30 to 31.

The Audit Committee is responsible for considering the engagement of external auditors of the Group and reviewing the independence and objectivity of the external auditors of the Group.

For the Year, the fees of the external auditors of the Group for audit services amounted to HK$1,615,000 and for non-audit services amounted to HK$5,000.

INTERNAL CONTROL

The Board is responsible for ensuring that an adequate system of internal controls is maintained within the Group, and for reviewing its effectiveness through the Audit Committee. The internal control systems are designed to meet the Group's particular needs and the risks to which it is exposed, and by their nature can only provide reasonable, but not absolute assurance against misstatement or loss and to manage, but not to eliminate, risks of failure in achieving the Group's objectives.

Procedures have been set up for safeguarding assets against unauthorized use or disposition, controlling over capital expenditure, maintaining proper accounting records and ensuring the reliability of financial information used for business and publication. Qualified personnel maintains and monitors the internal control systems on an ongoing basis.

The Board, through the Audit Committee, has conducted reviews of the effectiveness and the adequacy of the Group's system of internal control.

During the Year, based on the evaluations made by the Audit Committee, the Board was satisfied that nothing has come to its attention to cause the Board to believe that the system of internal control is inadequate; and there is an ongoing process to identify, evaluate and manage significant risks encountered by the Group.

Directors and Senior Management Profile

DIRECTORS

Executive Directors

Mr. Wong Yin Sen, aged 57, is one of the co-founders of the Group and the Chairman and President of the Group. Mr. Wong is familiar with the commercial, political and social situations in the PRC and has over 24 years of experience in operating enterprises with business in the PRC. After settling down in Hong Kong in 1992, he established and invested in the Group. Mr. Wong has accumulated abundant knowledge in the medical and health care product industry and extensive experience in enterprise management. Mr. Wong is also a director of Absolute Target Limited, a substantial shareholder of the Company.

Mr. Hon Lik, aged 54, is a senior pharmacist and one of the co-founders of the Group and Chief Executive Officer of the Group. Mr. Hon graduated from Liaoning College of Traditional Chinese Medicine in 1982 and started to work in Liaoning Academy of Traditional Chinese Medicine in the same year. Mr. Hon was promoted to the position of vice-superintendent of Liaoning Academy of Traditional Chinese Medicine in 1990, and was responsible for the technology development. Mr. Hon has approximately 24 years of experience in the medical field and invented and patented the technology used in Chenlong Baoling Longevity Ginseng products. Mr. Hon established and invested in the Group in 1992. Mr. Hon is also a director of Absolute Target Limited, a substantial shareholder of the Company.

Mr. Wong Hei Lin, aged 55, is an economist and one of the co-founders of the Group and is the Vice-President of the Group. Mr. Wong started to work in Liaoning Academy of Traditional Chinese Medicine in 1978. Mr. Wong was promoted to the position of Factory Director of Academy of Traditional Chinese Medicine's honeybee product factory in 1982, responsible for developing the honeybee health products. In 1984, Mr. Wong organised and set up Liaoning Academy of Traditional Chinese Medicine's Pharmaceutical Factory and became the Factory Director for sales. In 1989, Mr. Wong further organised and set up Liaoning Yunda Health Product Co. Ltd. and became the Chairman of the board of directors. Mr. Wong has over 26 years of experience in the health care product industry. Mr. Wong holds a diploma of professional management from Shenyang United Workers' University. Mr. Wong joined the Group in 1992. Mr. Wong is also a director of Absolute Target Limited, a substantial shareholder of the Company.

Mr. Frank H. Miu, aged 61, holds a Juris Doctor's degree from Harvard Law School and a Bachelor of Economics and Accounting degree from St. John's University of Minnesota. He is licensed by the New York State Bar having been admitted in 1982. Mr. Miu is a member of the American Bar Association, the American Institute of Certified Public Accountants and the Hong Kong Institute of Directors. For the bulk of his 15 years of professional experience in accounting and law, he was an attorney in the Hong Kong office of New York firm of Kaye, Scholar, Hays, Fierman and Handler and later served as counsel to the Hong Kong office of White and Case another New York firm. Mr. Miu also has about 20 years of management experience in other corporate positions in the fields of business and financial consulting. Mr. Miu is presently also an independent non-executive director of Mascotte Holdings Limited, a company listed on the main board of the Stock Exchange. He was previously an independent non-executive director of Willie International Holdings Limited, Wonson International Holdings Limited and China Sci-Tech Holdings Limited, all of which are companies listed on the main board of the Stock Exchange, until he resigned in March 2007, April 2007 and June 2007 respectively. Mr. Miu was formerly also an executive director of Radford Capital Investment Limited, a company listed on the main board of the Stock Exchange, until he resigned in December 2009. Mr. Miu was appointed as an executive Director of the Company on 12 April 2010.

DIRECTORS *(CONTINUED)*

Independent Non-executive Directors

Mr. Pang Hong, aged 56, worked for around 24 years in enterprises and government departments in the PRC. After studying for 3 years in the United States, Mr. Pang came to Hong Kong for his career development. Mr. Pang is familiar with the investment environment in the PRC and has rich experience in the management of PRC companies. Mr. Pang was previously an executive director of Pacmos Technologies Holdings Limited (formerly known as PCL Enterprises Holdings Limited) which is listed on the Stock Exchange. He is currently involved in private management consultancy. He is also currently an independent non-executive director of each of SMI Corporation Limited and M Channel Corporation Limited, the securities of which are listed on the Stock Exchange. Mr. Pang was appointed as an independent non-executive Director on 17 January 2001.

Mr. Cheung Kwan Hung, Anthony, aged 59, is a professional accountant. Mr. Cheung holds a high diploma in accountancy from the Hong Kong Polytechnic University. Mr. Cheung is currently a fellow member of the Association of Chartered Certified Accountants, and also the associate member of Hong Kong Institute of Certified Public Accountants. Mr. Cheung was taking the management and supervisory director role in the investment banking field and has accumulated over 24 years' experience in the financial market. He is currently involved in the private financial consultancy business. Mr. Cheung was appointed as an independent non-executive Director on 20 September 2004.

Mr. Ding Xun, aged 49, holds a Bachelor Degree of Economics and a MBA certification from Maritime Transportation University of Shanghai and Beijing University respectively. Mr. Ding worked in The Waterway Transportation Institute of the Ministry of Communications of the PRC and Guangdong Enterprises (Holdings) Limited. He was also a director of Guangdong Investment Limited and the vice-chairman of Guangdong Brewery Holdings Limited. Besides, he has extensive experience in corporate development, and has over 18 years of experience in Commercial Management sector and is familiar with Economics and Financial structure and investment environment in PRC and Hong Kong. He is currently an Independent Non-Executive Director of Shenzhen International Holdings Limited, being a company listed on the Stock Exchange of Hong Kong Limited. Mr. Ding was appointed as an independent non-executive Director on 27 July 2006.

Mr. Chung Yuk Lun, aged 49, is a fellow member of The Association of Chartered Certified Accountants, an associate member of The Hong Kong Institute of Certified Public Accountants and an Associate Chartered Accountants (England and Wales). Mr. Chung has over 20 years' experience in finance and project investment. He is currently an executive director of Radford Capital Investment Limited and Ming Fung Jewellery Group Limited, an independent non-executive director of Heritage International Holdings Limited and Forefront Group Limited, all of which are companies listed on the main board of the Stock Exchange. Mr. Chung was appointed as an independent non-executive Director on 14 April 2010.

DIRECTORS *(CONTINUED)*

Independent Non-executive Directors *(continued)*

Mr. Liu Kwong Sang, aged 48, has been practising as a certified public accountant in Hong Kong with more than 20 years' experience. He graduated with honours from the Hong Kong Polytechnic University with a bachelor degree in accountancy and obtained the Master in Business Administration degree from the University of Lincoln, the United Kingdom. Mr. Liu is an associate member of the Institute of Chartered Accountants in England and Wales, a fellow member of the Association of Chartered Certified Accountants, a fellow member of the Institute of Financial Accountants and a fellow member of the National Institute of Accountants, Australia. He is also a fellow member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Taxation Institute of Hong Kong and a fellow member of the Society of Registered Financial Planners. Mr. Liu acts as an independent non-executive director of Polytec Asset Holdings Limited and of China Railsmedia Corporation Limited, whose securities are listed on the Main Board of the Stock Exchange, and of abc Multiactive Limited, whose securities are listed on the GEM board of the Stock Exchange, and of Pacific CMA, Inc. whose securities were previously listed on the American Stock Exchange. He was also an independent non-executive director of Tack Fat Group International Limited, whose securities are listed on the main board of the Stock Exchange. Mr. Liu was appointed as an independent non-executive Director on 19 April 2010.

Senior management of the Group

Mr. Au Yeung Kai Chor was appointed as a General Manager of the Company on 14 April 2010. Mr. Au Yeung is responsible for the operation and administration in the PRC as well as investment and business development activities of the Company. He has over 20 years of experience in management and business. He is a member of the senior management of the Company.

Mr. Chan Yiu Nam was appointed as Financial Controller and Company Secretary of the Company on 13 August 2009. Mr. Chan holds a Bachelor of Arts (Honors) in Accountancy from the Hong Kong Polytechnic University. He is a member of Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. He has several years of experience in accounting, auditing and tax consultancy and worked in one of the major international accounting firms in Hong Kong.

Mr. Miu Nam is an executive director of Ruyan Group's subsidiary company in Hong Kong. He has over 15 years of experience in the field of financial investment and corporate management. Mr. Miu holds a PhD Degree in system engineering from Electronics Institute of the Chinese Academy of Science and a Masters Degree in electronic Engineering from Beijing University of Aeronautics and Astronautics. He is currently responsible for the Group's international cooperation, capital market development and operation.

Mr. Scott Fraser is the Vice President of Ruyan Group's subsidiary company in Hong Kong. Mr. Fraser holds a Masters Degree in Business Administration from University of California at Berkeley, Haas School of Business. He has over 20 years sales and marketing working experience in various multinational corporations in the PRC and the U.S., including Intel China Limited as the marketing manager, and Motorola Asia/Pacific Limited as Retail Channel Marketing Manager. He is currently responsible for the Group's international market and sales development.

The directors present their annual report and the audited consolidated financial statements for the year ended 31 December, 2009.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of the Company's principal subsidiaries are set out in note 38 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December, 2009 are set out in the consolidated statement of comprehensive income on page 32.

The directors do not recommend the payment of a dividend for the year.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 17 to the consolidated financial statements.

SHARE CAPITAL

Details of movements during the year in the Company's share capital are set out in note 32 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distributions to shareholders as at 31 December, 2009 comprise the share premium, contributed surplus and accumulated losses with a net aggregate amount of approximately HK$1,123,022,000 (2008: HK$1,151,364,000).

DIRECTORS

The directors of the Company during the year and up to the date of this report were/are:

Executive directors:	
Mr. Wong Yin Sen *(Chairman)*	
Mr. Hon Lik *(Chief Executive Officer)*	
Mr. Wong Hei Lin *(Vice president)*	
Mr. Li Kim Hung	(resigned on 13 August, 2009)
Mr. Frank H. Miu	(appointed on 12 April, 2010)

Independent non-executive directors:	
Mr. Pang Hong	
Mr. Cheung Kwan Hung, Anthony	
Mr. Ding Xun	
Mr. Chung Yuk Lun	(appointed on 14 April, 2010)
Mr. Liu Kwong Sang	(appointed on 19 April, 2010)

In accordance with Articles 87 and 88 of the Company's Articles of Association Messrs. Hon Lik, Pang Hong and Ding Xun shall retire by rotation and, being eligible, offer themselves for re-election. As Messrs. Frank H. Miu, Chung Yuk Lun and Liu Kwong Sang were appointed as Directors after the annual general meeting of the Company for the year ended 31 December 2008, they shall also retire as Directors at the annual general meeting and be eligible for re-election.

Messrs. Hon Lik, Pang Hong, Ding Xun, Frank H. Miu, Chung Yuk Lun and Liu Kwong Sang have offered themselves for re-election at the forthcoming annual general meeting.

DIRECTORS *(CONTINUED)*

The non-executive director has no set term of office but are subject to retirement by rotation, and being eligible, offer themselves for re-election, in accordance with the Company's Articles of Association.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December, 2009, the interests and short positions of the Directors and their associates in the shares and underlying shares of the Company and its associated corporations, as recorded in the register required to be kept by the Company pursuant to section 352 of the Securities and Futures Ordinance, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

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

Name of director	**Capacity**	**Number of issued ordinary shares of the Company** (Note 1)	**Number of underlying shares in respect of the options granted under the share option scheme of the Company** (Notes 1 & 4)	**Approximate percentage of the issued share capital of the Company**
Mr. Wong Yin Sen	Beneficial owner		1,500,000 (L)	0.10%
	Interest of a controlled corporation	556,906,000 (L) (Note 2)		36.80%
		451,200,000 (S) (Note 3)		29.81%
Mr. Hon Lik	Beneficial owner		1,500,000 (L)	0.10%
	Interest of a controlled corporation	556,906,000 (L) (Note 2)		36.80%
		451,200,000 (S) (Note 3)		29.81%
Mr. Wong Hei Lin	Beneficial owner		1,500,000 (L)	0.10%
	Interest of a controlled corporation	556,906,000 (L) (Note 2)		36.80%
		451,200,000 (S) (Note 3)		29.81%
Mr. Pang Hong	Beneficial owner	Nil	1,000,000 (L)	0.07%
Mr. Cheung Kwan Hung	Beneficial owner	Nil	1,000,000 (L)	0.07%
Mr. Ding Xun	Beneficial owner	Nil	1,000,000 (L)	0.07%

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES *(CONTINUED)*

Interests in the ordinary shares of HK$0.10 each in the Company *(continued)*

Notes:

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

(2) The 556,906,000 shares comprise 167,406,000 shares held by Ability Act Investments Limited and 388,000,000 shares held by Absolute Target Limited. Absolute Target Limited is owned as to 46.25% by Mr. Wong Yin Sen, 42.50% by Mr. Hon Lik and 11.25% by Mr. Wong Hei Lin. Ability Act Investments Limited is owned as to 4.75% by Goldtools Investments Limited which is wholly owned by Mr. Wong Hei Lin and 90.5% by Dragon Concept Investments Limited which is owned as to 52.11% and 47.89% by Mr. Wong Yin Sen and Mr. Hon Lik respectively.

(3) The short position in 451,200,000 shares were interested by Absolute Target Limited, which in turn is owned as to 46.25% by Mr. Wong Yin Sen, 42.50% by Mr. Hon Lik and 11.25% by Mr. Wong Hei Lin.

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

Long positions in the shares of associated corporation of the Company

Name of director	Name of associated corporation	Number of shares held	Approximately percentage of shareholding
Mr. Wong Yin Sen	Dragon Concept Investments Limited	5,211	52.11%
Mr. Hon Lik	Dragon Concept Investments Limited	4,789	47.89%
Mr. Wong Yin Sen	Absolute Target Limited	4,625	46.25%
Mr. Hon Lik	Absolute Target Limited	4,250	42.50%
Mr. Wong Hei Lin	Absolute Target Limited	1,125	11.25%

Save as disclosed above, as at 31 December, 2009, none of the Directors nor their associates had any interests or short positions in any shares and underlying shares of the Company or any of its associated corporations as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME

The existing share option scheme was adopted by the Company on 30 May 2003 (the "Scheme") and is for the primary purpose of providing incentives to participants including, inter alia, employees, executive directors and non-executive directors of the Group, supplier of goods or services, customers of the Group, persons providing research, development or other technical support to the Group, shareholders of any member of the Group, advisers or consultants, or joint venture partners, and for such other purposes as the Board may approve from time to time.

The total number of shares in respect of which options may be granted under the Scheme is 151,336,000 shares, which is equivalent to 10% of the total number of shares of the Company in issue as at 27 May 2008, being the date of refreshment of the limit of the Scheme and approximately 9.87% of the total issued share capital as at the date of this report.

The maximum number of shares of the Company issued and to be issued upon exercise of the options granted to each participant (including both exercised and unexercised options) under the Scheme and any other share option scheme (if any) adopted by the Company in any 12-month period must not exceed 1% of the shares of the Company in issue unless otherwise approved by the Company's shareholders. Where any grant of options to a substantial shareholder, an independent non-executive director, or any of their respective associates would result in the shares of the Company issued and to be issued upon exercise of all options already granted and to be granted to such person in any 12-month period up to and including the date of the grant:

(i) representing in aggregate over 0.1% of the shares of the Company in issue;

(ii) and having an aggregate value, based on the closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant in excess of HK$5 million,

such grant of option shall be subject to prior approval of the shareholders of the Company who are not connected persons of the Company as defined in the Listing Rules.

An option must be exercised within five years from the date of grant or such shorter period as the Board may notify to the grantee. Option granted must be taken up within 28 days from the date of offer, upon payment of HK$1 as consideration.

The exercise price is determined by the directors of the Company, and shall be at least the highest of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

The Scheme has a life of 10 years unless otherwise terminated in accordance with the terms of the Scheme.

SHARE OPTION SCHEME *(CONTINUED)*

The following table discloses movements in the Company's share options during the year:

Category of participants	Date of share options granted	No. of share options as at 1 January, 2009	No. of share options granted during the year	No. of share options exercised during the year	No. of share options lapsed during the year	No. of share options outstanding as at 31 December, 2009	Exercise period	Exercise price per share option (HK$)
Directors								
Wong Yin Sen	9 January, 2008	1,500,000	–	–	–	1,500,000	11 January, 2008 to 10 January, 2013	0.60
Hon Lik	9 January, 2008	1,500,000	–	–	–	1,500,000	4 February, 2008 to 3 February, 2013	0.60
Wong Hei Lin	9 January, 2008	1,500,000	–	–	–	1,500,000	4 February, 2008 to 3 February, 2013	0.60
Li Kim Hung	9 January, 2008	15,000,000	–	–	15,000,000	– (Note 1)	24 January, 2008 to 23 January, 2013	0.60
Pang Hong	9 January, 2008	1,000,000	–	–	–	1,000,000	14 January, 2008 to 13 January, 2013	0.60
Cheung Kwan Hung	9 January, 2008	1,000,000	–	–	–	1,000,000	11 January, 2008 to 10 January, 2013	0.60
Ding Xun	9 January, 2008	1,000,000	–	–	–	1,000,000	22 January, 2008 to 21 January, 2013	0.60
						7,500,000		
Employees(in aggregate)								
	9 January, 2008	22,600,000	–	–	–	22,600,000	6 February, 2008 to 5 February, 2013	0.60
	18 February, 2008	1,000,000	–	–	–	1,000,000	17 March, 2008 to 16 March, 2013	0.70
	28 February, 2008	6,000,000	–	–	2,000,000	4,000,000	27 March, 2008 to 26 March, 2013	0.70
	5 June, 2008	2,000,000	–	–	–	2,000,000	3 July, 2008 to 2 July, 2013	0.62
	20 November, 2009	–	6,000,000	1,000,000	–	5,000,000	20 November, 2009 to 19 November, 2013	0.167
						34,600,000		
Others								
	6 May, 2008	2,000,000	–	–	–	2,000,000	3 June, 2008 to 2 June, 2013	0.61
	30 March, 2009	–	15,000,000	–	–	15,000,000	30 March, 2009 to 29 March, 2013	0.4
						17,000,000		
Total						59,100,000		

SHARE OPTION SCHEME *(CONTINUED)*

Notes:

1. The options granted to Mr. Li Kim Hung lapsed on 13 August 2009, the date on which Mr. Li resigned as an executive director of the Company.

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

The closing prices of the Company's shares immediately before 30 March, 2009 and 20 November, 2009, the dates of grant of the options in 2009, were HK$0.4 and HK$0.167 respectively (closing prices of the Company's shares immediately before 9 January, 2008, 18 February, 2008, 28 February, 2008, 6 May, 2008 and 5 June, 2008, the dates of grant of the 2008 options, were HK$0.61, HK$0.70, HK$0.70, HK$0.61 and HK$0.62 respectively).

SUBSTANTIAL SHAREHOLDERS

So far as is known to Directors, as at 31 December, 2009, the persons or companies (other than directors or chief executive) who had interests or short positions in the shares or underlying shares of the Company which fall to be disclosed to the Company under Part XV of the SFO, or which were recorded in the register of substantial shareholders required to be kept by the Company under section 336 of the SFO were as follows:

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

Name	Capacity	Number of share of the Company (Note 1)	Approximate percentage of shareholding
Absolute Target Limited (Note 2)	Beneficial owner	388,000,000 (L)	25.64%
		351,200,000 (S)	23.21%
Ability Act Investments Limited (Note 3)	Interest of controlled corporation	167,406,000 (L)	11.06%
		100,000,000 (S)	6.61%
Central Safe Investments Limited (Note 4)	Interest of controlled corporation	96,009,615 (L)	6.34%
	Person having a security interest in shares	175,600,000 (L)	11.60%
Evolution Capital Management, LLC (Note 5)	Investment Manager	102,857,142 (L)	6.80%
	Person having a security interest in shares	175,600,000 (L)	11.60%
Evolution Master Fund Ltd. SPC, Segregated Portfolio M (Note 5)	Beneficial owner	102,857,142 (L)	6.80%
	Person having a security interest in shares	175,600,000 (L)	11.60%

SUBSTANTIAL SHAREHOLDERS *(CONTINUED)*

Interests in the ordinary shares of HK$0.10 each in the Company *(continued)*

Notes:

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

(2) Absolute Target Limited is owned as to 46.25%, 42.50% and 11.25% by Mr. Wong Yin Sen, Mr. Hon Lik and Mr. Wong Hei Lin respectively.

(3) Ability Act Investments Limited is owned as to 4.75% by Goldtools Investments Limited which is wholly owned by Mr. Wong Hei Lin, 4.75% by Success Glory Group Limited which is wholly owned by Mr. Li Kim Hung, and 90.5% by Dragon Concept Investments Limited which is owned as to 52.11% and 47.89% by Mr. Wong Yin Sen and Mr. Hon Lik respectively.

(4) Pursuant to the corporate substantial shareholder notice filed by Central SAFE Investments Limited on 28 August, 2009, the interest in an aggregate of 271,609,615 shares were directly held by BOCI Financial Products Limited which was a wholly owned subsidiary of BOC International Holdings Limited, a wholly owned subsidiary of Bank of China Limited. Central SAFE Investments Limited was interested in 67.53% shareholding of Bank of China Limited.

(5) As at 31 December, 2009, Evolution Capital Management, LLC and Evolution Master Fund Ltd. SPC, Segregated Portfolio M were interested in the same block of an aggregate of 278,457,142 shares.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December, 2009.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company, or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company and the Group was entered into or existed during the year.

SUBSTANTIAL SHAREHOLDERS

So far as is known to the Directors, as at 31 December, 2009, the persons or companies (other than directors or chief executive) who had interests or short positions in the shares or underlying shares of the Company which fall to be disclosed to the Company under Part XV of the SFO, or which were recorded in the register of substantial shareholders required to be kept by the Company under section 336 of the SFO were as follows:

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

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December, 2009.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 11 to 17.

EMOLUMENT POLICY

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

The emoluments of the Directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

MAJOR SUPPLIERS AND CUSTOMERS

During the year, the largest supplier of the Group by itself and together with the next four largest suppliers accounted for about 13% and 58%, respectively, of the Group's purchases.

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

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

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

During the year ended 31 December, 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.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its directors, as at the date of this report, the Company has maintained sufficient public float as required under the Listing Rules.

AUDITOR

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board
Mr. Wong Yin Sen
CHAIRMAN

Hong Kong
27 April, 2010

Deloitte.
德勤

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

We have audited the consolidated financial statements of Ruyan Group (Holdings) Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 32 to 93, which comprise the consolidated statement of financial position as at 31 December, 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December, 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$443,907,000 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.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
27 April, 2010

Consolidated Statement of Comprehensive Income

For the year ended 31 December, 2009

	NOTES	2009 HK$'000	2008 HK$'000
Revenue	8	**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	30	**9,643**	(16,810)
Gain on restructuring of convertible bonds	30	**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	24	**(7,974)**	–
Impairment loss on property, plant and equipment		**(20,000)**	(5,939)
Impairment loss on goodwill		**(3,934)**	–
Finance costs	10	**(31,432)**	(29,201)
Loss before tax		**(441,855)**	(147,374)
Income tax expense	11	**(2,052)**	(17,270)
Loss for the year	12	**(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	16	**HK$ (29.33) cents**	HK$ (10.88) cents

Consolidated Statement of Financial Position

At 31 December, 2009

	NOTES	2009 HK$'000	2008 HK$'000
Non-current assets			
Property, plant and equipment	*17*	**46,859**	98,556
Goodwill	*18*	**–**	3,934
Available-for-sale investments	*19*	**–**	–
Intangible assets	*20*	**730**	1,823
Prepaid lease payments	*21*	**2,664**	27,460
Deposit for acquisition of properties		**–**	5,000
		50,253	136,773
Current assets			
Inventories	*22*	**99,277**	196,171
Trade receivables	*23*	**46,042**	169,113
Deposits, prepayments and other receivables	*24*	**48,701**	78,108
Taxation recoverable		**2,818**	–
Amount due from a shareholder		**127**	–
Prepaid lease payments	*21*	**77**	606
Held-for-trading investments	*25*	**–**	6,792
Bank balances and cash	*26*	**24,117**	182,298
		221,159	633,088
Current liabilities			
Trade payables	*27*	**6,602**	19,684
Accruals and other payables	*28*	**35,597**	36,486
Derivative financial instruments	*30*	**–**	46,750
Convertible bonds	*30*	**152,000**	140,136
Borrowings	*29*	**–**	6,348
Amount due to a shareholder	*31*	**10,000**	–
Amount due to a minority shareholder	*31*	**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	*29*	**–**	10,259
Net assets		**44,207**	483,207

Consolidated Statement of Financial Position

At 31 December, 2009

	NOTE	2009 HK$'000	2008 HK$'000
Capital and reserves			
Share capital	32	**151,336**	151,336
Reserves		**(107,129)**	331,871
Equity attributable to owners of the Company		**44,207**	483,207

The financial statements on pages 32 to 93 were approved and authorised for issue by the Board of Directors on 27 April, 2010 and are signed on its behalf by:

DIRECTOR *DIRECTOR*

	Share capital HK$'000	Share premium account HK$'000	Shareholders' contribution HK$'000 (note a)	Translation reserve HK$'000	Share option reserve HK$'000	Non-distributable reserves HK$'000 (note b)	Merger reserves HK$'000 (note d)	Special reserves HK$'000 (note c)	Accumulated profits (losses) HK$'000	Total HK$'000
At 1 January, 2008	151,336	1,182,410	21,780	52,418	–	24,737	(1,016,738)	3,142	185,732	604,817
Loss for the year	–	–	–	–	–	–	–	–	(164,644)	(164,644)
Exchange differences arising on translation to presentation currency	–	–	–	32,524	–	–	–	–	–	32,524
Total comprehensive income (expense) for the year	–	–	–	32,524	–	–	–	–	(164,644)	(132,120)
Recognition of equity-settled share-based payments	–	–	–	–	10,510	–	–	–	–	10,510
At 31 December, 2008	151,336	1,182,410	21,780	84,942	10,510	24,737	(1,016,738)	3,142	21,088	483,207
Loss for the year	–	–	–	–	–	–	–	–	(443,907)	(443,907)
Exchange differences arising on translation to presentation currency	–	–	–	1,931	–	–	–	–	–	1,931
Total comprehensive income (expense) for the year	–	–	–	1,931	–	–	–	–	(443,907)	(441,976)
Lapse of share options	–	–	–	–	(3,874)	–	–	–	3,874	–
Recognition of equity-settled share-based payments	–	–	–	–	2,976	–	–	–	–	2,976
At 31 December, 2009	151,336	1,182,410	21,780	86,873	9,612	24,737	(1,016,738)	3,142	(418,945)	44,207

Notes:

(a) Shareholders' contribution represents the amounts contributed by shareholders of SBT Investment (Holdings) Limited ("SBT") previously known as Best Partners Worldwide Limited.

(b) The non-distributable reserve represents statutory reserves appropriated from profit after tax of the Company's PRC subsidiary under the PRC laws and regulations.

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

(d) The merger reserve represents (i) the share capital of SBT (ii) the carrying amount of equity interest in SBT held by the non-controlling parties and (iii) the fair value of the consideration paid for the acquisition of SBT.

Consolidated Statement of Cash Flows

For the year ended 31 December, 2009

	2009 HK$'000	2008 HK$'000
OPERATING ACTIVITIES		
Loss before tax	**(441,855)**	(147,374)
Adjustments for:		
Depreciation of property, plant and equipment	**13,584**	7,580
Amortisation of prepaid lease payments	**517**	599
Amortisation of intangible assets	**1,090**	1,079
Allowance for inventory obsolescence	**191,706**	68,661
Allowance for bad and doubtful debts	**95,055**	49,426
Provision for onerous contracts	**7,974**	–
Share-based payment expense	**2,976**	10,510
Finance costs	**31,432**	29,201
Change in fair value of derivative financial instruments	**(9,643)**	16,810
Gain on restructuring of convertible bonds	**(9,400)**	–
Gain on early redemption of convertible bonds	**(161)**	–
Change in fair value of held-for-trading investment	**(668)**	16,908
Interest income	**(98)**	(895)
Impairment losses on property, plant and equipment	**20,000**	5,939
Impairment loss on goodwill	**3,934**	–
(Gain) loss on disposal of property, plant and equipment and prepaid lease payments	**(2,666)**	6
Operating cash flows before movements in working capital	**(96,223)**	58,450
Increase in inventories	**(94,358)**	(44,561)
Decrease (increase) in trade receivables	**44,256**	(43,956)
Decrease (increase) in deposits and other receivable	**10,459**	(20,753)
Decrease (increase) in held-for-trading investments	**7,460**	(23,434)
(Decrease) increase in trade payables	**(13,037)**	1,811
Decrease in accruals and other payables	**(806)**	(30,538)
Cash used in operations	**(142,249)**	(102,981)
Interest received	**98**	895
Interest paid	**(2,089)**	(8,805)
PRC income tax paid	**(15,068)**	(7,299)
NET CASH USED IN OPERATING ACTIVITIES	**(159,308)**	(118,190)
INVESTING ACTIVITIES		
Increase in deposit	**–**	(5,000)
Purchase of property, plant and equipment	**(3,203)**	(46,888)
Proceeds on disposal of property, plant and equipment and prepaid lease payments	**33,708**	–
Advance to a shareholder	**(127)**	–
NET CASH FROM (USED IN) INVESTING ACTIVITIES	**30,378**	(51,888)

	2009 HK$'000	2008 HK$'000
FINANCING ACTIVITIES		
Repayments of bank borrowings	–	(25,001)
Repayment of other borrowings	(3,591)	(9,933)
Redemption of convertible bonds	(43,163)	–
Advances from a shareholder	10,000	–
Advances from a minority shareholder	6,226	14,785
NET CASH USED IN FINANCING ACTIVITIES	(30,528)	(20,149)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(159,458)	(190,227)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	182,298	361,316
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	1,277	11,209
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH	24,117	182,298

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 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 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") as mentioned in note 40(b), 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 40, 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 can be 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. GOING CONCERN BASIS *(CONTINUED)*

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")

In the current year, the Group has applied the following new and revised Standards, Amendments and Interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKAS 1 (Revised 2007)	Presentation of financial statements
HKAS 23 (Revised 2007)	Borrowing costs
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate
HKFRS 2 (Amendment)	Vesting conditions and cancellations
HKFRS 7 (Amendment)	Improving disclosures about financial instruments
HKFRS 8	Operating segments
HK(IFRIC)-Int 9 & HKAS 39 (Amendments)	Embedded derivatives
HK(IFRIC)-Int 13	Customer loyalty programmes
HK(IFRIC)-Int 15	Agreements for the construction of real estate
HK(IFRIC)-Int 16	Hedges of a net investment in a foreign operation
HK(IFRIC)-Int 18	Transfers of assets from customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning on or after 1 July, 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

Except as described below, the adoption of the new and revised HKFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior annual periods.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS") *(CONTINUED)*

New and revised HKFRSs affecting presentation and disclosure only

HKAS 1 (Revised 2007) Presentation of financial statements

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the consolidated financial statements) and changes in the format and content of the consolidated financial statements.

HKFRS 8 Operating segments

HKFRS 8 is a disclosure standard that has not resulted in a redesignation of the Group's reportable segments and has not changed the basis of measurement of segment profit or loss and segment assets (see note 9)

Improving disclosures about financial instruments (amendments to HKFRS 7 Financial instruments: Disclosures)

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

New and revised HKFRSs affecting the reported results and/or financial position

HKAS 23 (Revised 2007) Borrowing costs

In previous years, the Group expensed all borrowing costs when they were incurred. HKAS 23 (Revised 2007) removes the option previously available to expense all borrowing costs when incurred. The adoption of HKAS 23 (Revised 2007) has resulted in the Group changing its accounting policy to capitalise all such borrowing costs as part of the cost of the qualifying asset. The revised accounting policy does not have any effect on the reported results and financial position of the Group for the current or prior accounting periods.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS") *(CONTINUED)*

The Group has not early applied the following new and revised Standards, Amendments or Interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	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.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS") *(CONTINUED)*

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. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Listing Rules and by the Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Basis of consolidation *(continued)*

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses and is presented in the consolidated statement of financial position as an intangible asset.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts, sales related taxes and returns.

Revenue from sale of goods is recognised when title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

– the technical feasibility of completing the intangible asset so that it will be available for use or sale;

– the intention to complete the intangible asset and use or sell it;

– the ability to use or sell the intangible asset;

– how the intangible asset will generate probable future economic benefits;

– the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

– the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year in which the item is derecognised.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and building

The land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payment can be made reliably, leasehold interests in land are accounted for as operating leases and amortised over the lease term on a straight-line basis.

Onerous contracts

An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. A provision for onerous contract is recognised through direct reduction of prepayments paid for such onerous contracts.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve).

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefits costs

Payments to defined contribution retirement benefits schemes and state-managed retirement benefit scheme are charged as expenses when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Taxation *(continued)*

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Intangible assets

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses, if any. Amortisation is recognised on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the profit or loss when the asset is derecognised.

The Group’s intangible assets represent technology know-how acquired from third parties.

Inventories

Inventories comprise raw materials, work-in-progress and finished goods are carried at the lower of cost and net realisable value.

Cost includes direct materials, direct labour costs and overheads that have been incurred in bringing the inventories and work in progress to their present location and condition and is calculated using the weighted average method.

Net realisable value is the estimated by the management and is determined by reference to the selling price less all costs to completion and costs to be incurred in selling and distribution.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Financial assets at fair value through profit or loss

Financial assets at FVTPL represent financial assets held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(continued)*

Financial assets (continued)

Loans and receivables

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

Available-for-sale financial assets

The Group's available-for-sale financial assets comprised an unlisted equity investment.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are measured at cost less any identified impairment losses at each statement of financial position date subsequent to initial recognition (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period from 60 to 270 days and observable changes in national or local economic conditions that correlate with default on receivables.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(continued)*

Impairment of financial assets (continued)

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

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sales equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss in subsequent periods. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(continued)*

Financial liabilities and equity (continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Convertible bonds containing liability component and conversion option derivative

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

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

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

When an entity extinguishes the convertible bonds before maturity through an early redemption or repurchase, in which the original conversion privileges are unchanged, the consideration paid and any transaction costs for the repurchase or redemption are allocated to the liability, early redemption option derivatives and conversion option components of the instrument at the date of the transaction. The method used in allocating the consideration paid and transaction costs to the separate components is consistent with that used in the original allocation to the separate components of the proceeds received by the Group when the convertible bonds were issued.

Once the allocation of the consideration is made, the amount of gain or loss relating to the liability component and the embedded derivatives are recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(continued)*

***Financial liabilities and equity** (continued)*

Convertible bonds containing liability component and conversion option derivative (continued)

An exchange between the Company and lender of debt instruments, including convertible bonds, with substantially different terms shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The difference between the carrying amount of the financial liability (or part of a financial liability) extinguished and the consideration paid including any non-cash assets transferred or liabilities assumed, is recognised in the profit or loss.

Other financial liabilities

Other financial liabilities including trade payables, other payables, amount due to a shareholder, amount due to a minority shareholder and borrowings are subsequently measured at amortised cost, using the effective interest method.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are separated from the relevant host contracts (the liability component) and deemed as held-for-trading when the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contracts, and the combined contracts are not measured at fair value through profit or loss.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(continued)*

Derecognition

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

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

Impairment losses on tangible and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Share-based payment transactions

Equity-settled share-based payment transactions

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

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

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

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Fair value of derivatives and other financial instruments

As described in note 30, the directors of the Company use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. The derivative financial instruments are valued using the binominal model that incorporated market data and involved uncertainty in estimates used by management in the assumptions. Because binominal model requires the input of highly subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate. The carrying amounts of the financial derivatives are set out in note 30.

Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

As at 31 December, 2009, the carrying amount of trade receivable is approximately HK$46,042,000 (net of allowance for doubtful debts of approximately HK$125,132,000) (31 December, 2008: carrying amount of approximately HK$169,113,000, net of allowance for doubtful debts of approximately HK$48,902,000).

5. KEY SOURCES OF ESTIMATION UNCERTAINTY *(CONTINUED)*

Estimated impairment of trade receivables *(continued)*

Allowances for inventories

The management of the Group reviews an aging analysis at the end of the reporting period and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production or sale. The management estimates the net realisable value for such finished goods and work-in progress based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of the reporting period and makes allowance for obsolete items.

If the market condition was to deteriorate, resulting in a lower net realisable value for such finished goods and work-in-progress, additional allowances may be required.

As at 31 December, 2009, the carrying amount of inventories is approximately HK$99,277,000 (net of allowance for inventory obsolescence of approximately HK$260,367,000) (31 December 2008: carrying amount of approximately HK$196,171,000, net of allowance for inventory obsolescence of approximately HK$68,661,000).

6. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group equals to total equity attributable to equity holders of the Company, comprising issued share capital, reserves and accumulated profits.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

7. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2009 HK$'000	2008 HK$'000
Financial assets		
Held-for-trading investments	**–**	6,792
Loans and receivables (including cash and cash equivalents)	**95,521**	383,269
Financial liabilities		
Derivative financial instruments classified as held-for-trading	**–**	46,750
Amortised cost	**214,835**	212,932

Financial risk management objectives and policies

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

Market risk

Currency risk

Certain bank balances of the Group are denominated in foreign currencies which are different from functional currencies of respective group entities. As at 31 December, 2009 and 2008, as bank balances of respective group entities denominated in foreign currency was immaterial, the Group does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise. In view of the immaterial foreign currency amount, no sensitivity analysis was presented.

7. FINANCIAL INSTRUMENTS *(CONTINUED)*

Financial risk management objectives and policies *(continued)*

Market risk (continued)

Interest rate risk

Fair value interest rate risk

The Group is exposed to fair value interest rate risk in relation to the convertible bonds (see note 30 for details) through the impact of market interest rate changes on interest bearing borrowings.

The Group currently does not have interest rate hedging policy. However, the management will consider hedging significant interest rate exposure should the need arise.

Other price risk

As at 31 December 2009, the Group is exposed to price risk in respect of the conversion option and early redemption options embedded in the convertible bonds which allows the bondholders to convert to the Company's ordinary shares and allow the Group to early redeem the convertible bonds.

As the quoted share price of the Company was significantly lower than the exercise price of the embedded derivatives as of 31 December 2009, the fair values of the embedded derivative were insignificant. Accordingly, no sensitivity analysis is presented.

As at 31 December 2008, the Group was exposed to equity price risk through its held-for-trading investments in respect of equity securities listed in the respective stock exchange. If the quoted market prices of the held-for-trading investments had been increased or decreased by 10% and other variables were held constant, the Group's loss for the year ended 31 December 2008 would decrease/increase by HK$679,000.

The management would manage its exposure arising from these investments by closely monitoring the performance of respective listed equity security and market conditions. The management would consider diversifying the portfolio of these investments as they consider appropriate.

7. FINANCIAL INSTRUMENTS *(CONTINUED)*

Financial risk management objectives and policies *(continued)*

Credit risk

As at 31 December, 2009, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers.

Liquidity risk

The Company's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term. As at 31 December, 2009, the Group recorded net current liabilities of HK$6,046,000. In the opinion of the directors, the liquidity of the Group can be maintained in the coming year, after taking into consideration of the expected completion of the placing of new convertible bonds for an aggregate principal amount of HK$250,000,000 by 30 June, 2010.

The following table details the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

7. FINANCIAL INSTRUMENTS *(CONTINUED)*

Financial risk management objectives and policies *(continued)*

Liquidity risk (continued)

Liquidity risk tables

	Weighted average interest rate %	Less than 1 month HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	1-5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2009 HK$'000
2009							
Non-derivative financial liabilities							
Trade payables	–	6,602	–	–	–	6,602	6,602
Other payables	–	25,222	–	–	–	25,222	25,222
Amount due to a minority shareholder	–	21,011	–	–	–	21,011	21,011
Amount due to a shareholder	–	10,000	–	–	–	10,000	10,000
Convertible bonds	4	2,320	–	171,065	–	173,385	152,000
		65,155	–	171,065	–	236,220	214,835

	Weighted average effective interest rate %	Less than 1 month HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	1-5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2008 HK$'000
2008							
Non-derivative financial liabilities							
Trade payables	–	19,684	–	–	–	19,684	19,684
Other payables	–	21,720	–	–	–	21,720	21,720
Amount due to a minority shareholder	–	14,785	–	–	–	14,785	14,785
Borrowings							
– variable rate	5.8	719	2,157	4,559	11,028	18,463	16,607
Convertible bonds	2.5	1,887	–	181,800	–	183,687	140,136
		58,795	2,157	186,359	11,028	258,339	212,932

7. FINANCIAL INSTRUMENTS *(CONTINUED)*

Fair value

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

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

- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis. For an option-based derivative, the fair value is estimated using option pricing model (for example, the binomial model).

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value are grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Derivative financial instruments are grouped into Level 3. They were comprised of the conversion option, issuer early redemption option and bondholders early redemption option embedded to the convertible bonds. As at 31 December 2009, the fair value of these derivative financial instruments were insignificant.

During the year ended 31 December 2009, there is no transfer among different levels.

8. REVENUE

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

9. BUSINESS AND GEOGRAPHICAL SEGMENTS

The Group has adopted HKFRS 8 *Operating Segments* with effect from 1 January, 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to the segment and assessing their performance. In contrast, the predecessor Standard (HKAS 14 *Segment Reporting*) required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach. In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14. Nor has the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss.

The Group's executive directors are the chief operating decision makers as they collectively make strategic decisions towards the Group's operations. Internal reports are reviewed by the Group's executive directors on monthly basis. The Group is principally engaged in production and sales of a series of health care products, pharmaceutical products and Ruyan atomizing cigarettes in the PRC. Nearly all identifiable assets of the Group are located in PRC. Information reported to the Group's management for the purpose of resources allocation and assessment of performance focuses on the type of products or services. Each type of product or service is managed by an unique business unit within the Group whose performance is assessed independently. The Group's operating segments under HKFRS 8 are therefore as follows:

(a) health care products, which are mainly represented by ginseng products
(b) pharmaceutical products, which are mainly represented by licensed medicines
(c) Ruyan atomizing cigarettes

9. BUSINESS AND GEOGRAPHICAL SEGMENTS *(CONTINUED)*

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 revenue	**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 restructuring 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 4. 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.

9. BUSINESS AND GEOGRAPHICAL SEGMENTS *(CONTINUED)*

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
Accruals and 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 investment, 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.

9. BUSINESS AND GEOGRAPHICAL SEGMENTS *(CONTINUED)*

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
Provision for onerous contracts	**–**	–	**–**	–	**7,974**	–	**7,974**	–	**–**	–	**7,974**	–
(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
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**	–

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

9. BUSINESS AND GEOGRAPHICAL SEGMENTS *(CONTINUED)*

Revenue from major products

	2009 HK$'000	2008 HK$'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.

10. FINANCE COSTS

	2009 HK$'000	2008 HK$'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 (note 30)	**29,570**	24,171
	31,432	29,201

11. INCOME TAX EXPENSE

	2009 HK$'000	2008 HK$'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 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 year ended 31 December, 2008 and 31 December, 2009 respectively.

Pursuant to 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 year ended 31 December, 2008 and 31 December, 2009 respectively.

11. INCOME TAX EXPENSE *(CONTINUED)*

Pursuant to the relevant laws and regulations in the PRC, Tianjian SBT Technology & Development Corporation ("Tianjian SBT") was subjected to the PRC Income Tax of 25% and was entitled to an exemption from the PRC Income Tax for the two years ended 31 December, 2008. 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 as follows:

	2009 **HK$'000**	2008 HK$'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

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.

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 differences as the directors of the Company is not certain when taxable profit will be available against which the deductible temporary differences can be utilised.

12. 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 (note 13)		
– 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
Auditor's 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.

13. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the seven (2008: seven) directors were as follows:

	Wong Yin Sen HK$'000	Hon Lik HK$'000	Wong Hei Lin HK$'000	Li Kim Hung HK$'000	Ding Xun HK$'000	Pang Hong HK$'000	Cheung Kwan Hung HK$'000	Total 2009 HK$'000
Fees	–	–	–	–	150	150	150	450
Other emoluments								
Salaries	1,650	900	675	1,020	–	–	–	4,245
Other allowances	227	–	20	48	–	–	–	295
Retirement benefits scheme contributions	12	12	12	7	–	–	–	43
	1,889	912	707	1,075	150	150	150	5,033

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

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

14. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2008: four) were directors of the Company whose emoluments are included in the disclosures in note 13 above. The emoluments of the remaining one (2008: one) individual were as follows:

	2009 HK$'000	2008 HK$'000
Salaries and other benefits	775	1,303
Contributions to retirement benefits schemes	9	12
	784	1,315

His emoluments was within the following band:

	2009 No. of employees	2008 No. of employees
HK$nil to HK$1,000,000	1	–
HK$1,000,001 to HK$1,500,000	–	1

15. DIVIDENDS

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

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

	2009 '000	2008 '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 bonds would reduce the loss per share.

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Leasehold improvement HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
THE GROUP						
COST						
At 1 January, 2008	51,054	8,929	11,927	5,879	12,347	90,136
Exchange adjustments	3,127	471	737	332	754	5,421
Additions	–	7,399	38,343	797	349	46,888
Disposals	–	–	(43)	–	–	(43)
At 31 December, 2008	54,181	16,799	50,964	7,008	13,450	142,402
Exchange adjustments	(98)	(23)	(118)	(25)	(25)	(289)
Additions	–	804	2,326	21	52	3,203
Disposals	(20,644)	(12,258)	–	–	(2,835)	(35,737)
At 31 December, 2009	33,439	5,322	53,172	7,004	10,642	109,579
DEPRECIATION AND IMPAIRMENT LOSSES						
At 1 January, 2008	9,784	3,928	7,159	2,926	4,866	28,663
Exchange adjustments	625	196	459	165	256	1,701
Provided for the year	1,602	2,488	1,554	790	1,146	7,580
Disposals	–	–	(37)	–	–	(37)
Impairment loss for the year	–	5,939	–	–	–	5,939
At 31 December, 2008	12,011	12,551	9,135	3,881	6,268	43,846
Exchange adjustments	(28)	(14)	(31)	(12)	(9)	(94)
Provided for the year	1,532	1,988	8,559	731	774	13,584
Disposals	(1,851)	(11,961)	–	–	(804)	(14,616)
Impairment loss for the year (note)	–	–	20,000	–	–	20,000
At 31 December, 2009	11,664	2,564	37,663	4,600	6,229	62,720
NET BOOK VALUES						
At 31 December, 2009	21,775	2,758	15,509	2,404	4,413	46,859
At 31 December, 2008	42,170	4,248	41,829	3,127	7,182	98,556

Note: In view of the huge operating loss experienced by the Group in Ruyan atomizing cigarettes business during the year, the directors of the Company reviewed the carrying value of their plant and machinery based on value in use assessment, in order to assess their recoverable amount. Impairment loss of HK$20,000,000 was provided on the plant and machinery related to Ruyan atomizing cigarettes business with reference to the result of the value in use assessment. The discount rate in measuring the amounts of value in use was 12%.

17. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Buildings	Over the shorter of the terms of the lease or 50 years
Leasehold improvement	Over the shorter of the terms of the lease or 50 years
Plant and machinery	9%-20%
Furniture, fixtures and equipment	18%-20%
Motor vehicles	9%-20%

18. GOODWILL

	HK$'000
COST	
At 1 January, 2008 and 2009 and 31 December, 2009	3,934
IMPAIRMENT	
At 1 January, 2008 and 2009	–
Impairment loss recognised in the year	3,934
At 31 December, 2009	3,934
CARRYING VALUES	
At 31 December, 2009	–
At 31 December, 2008	3,934

For the purpose of impairment testing, goodwill of HK$3,934,000 (2008: HKS3,934,000) has been allocated to an individual cash generating unit ("CGU"), which represents those subsidiaries engaged in the health care products business.

18. GOODWILL *(CONTINUED)*

During the year, the Group has performed impairment review for goodwill, based on cash flow forecasts derived from the most recent financial budgets for the next three years using the discount rate of 12%, while the remaining forecast beyond that three year period has been extrapolated with reference to annual growth rate of zero. Other key assumptions for the value in use calculations related to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development.

At the end of the reporting period, the Group assessed the recoverable amount of the goodwill and considered the goodwill was fully impaired.

19. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

	2009 **HK$'000**	2008 HK$'000
Unlisted equity securities in Hong Kong	**1,000**	1,000
Less: Impairment loss	**(1,000)**	(1,000)
	–	–

The amount represents unlisted equity investment in Archnet Technology Limited ("Archnet"), a company incorporated in Hong Kong, which is stated at cost less impairment loss. The Group's investment represents a holding of 20% of the ordinary shares of Archnet. Archnet is not regarded as an associate of the Group because the Group is unable to appoint directors to sit on the board of Archnet and hence not in a position to exercise significant influence over its financial and operating policy decisions.

The investment has been fully impaired in prior periods.

20. INTANGIBLE ASSETS

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

	Technical know-hows HK$'000
COST	
At 1 January, 2008	11,663
Exchange adjustments	723
At 31 December, 2008	12,386
Exchange adjustments	(28)
At 31 December, 2009	12,358
AMORTISATION	
At 1 January, 2008	8,920
Exchange adjustments	564
Charge for the year	1,079
At 31 December, 2008	10,563
Exchange adjustments	(25)
Charge for the year	1,090
At 31 December, 2009	11,628
CARRYING VALUES	
At 31 December, 2009	730
At 31 December, 2008	1,823

21. PREPAID LEASE PAYMENTS

The prepaid lease payments comprise:

	2009 HK$'000	2008 HK$'000
Leasehold land outside Hong Kong:		
Medium-term lease	**2,741**	28,066
Analysed for reporting purposes as:		
Current portion	**77**	606
Non-current portion	**2,664**	27,460
	2,741	28,066

The Group has disposed prepaid lease payments with carrying amount of approximately HK$24,773,000 during the year.

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

22. INVENTORIES

	2009 HK$'000	2008 HK$'000
Raw materials	**72,166**	130,081
Work in progress	**4,597**	32,846
Finished goods	**22,514**	33,244
	99,277	196,171

As at 31 December 2009, inventories of HK$28,000,000 (2008: nil) was stated at the net realisable value of respective inventories.

23. TRADE RECEIVABLES

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

23. TRADE RECEIVABLES *(CONTINUED)*

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 policy of allowance for bad and doubtful debts which is based on the evaluation of collectibility and age of accounts and on 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.

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.

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

23. TRADE RECEIVABLES *(CONTINUED)*

Ageing of trade receivables which are past due but not impaired *(continued)*

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 period. 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 HK$'000	2008 HK$'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.

24. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

Details of the amounts of deposits, prepayments and other receivables, net of provision are as follows:

	2009 HK$'000	2008 HK$'000
Deposits (note i)	**1,498**	15,523
Prepayments (note ii)	**21,968**	30,727
Other receivables (note iii)	**25,235**	31,858
	48,701	78,108

Notes:

i As at 31 December 2008, the amounts included a security deposit of HK$9,090,000 paid to a PRC retail store. During the year ended 31 December 2009, impairment loss of HK$9,090,000 was fully provided for the security deposit as the PRC retail store was bankrupted.

ii As at 31 December 2008, the amounts included prepayments paid in accordance to the non-cancellable contracts signed with several suppliers for the production of moulds of certain models of Ruyan atomizing cigarettes of HK$7,974,000. During the year 31 December 2009, provision of onerous contracts related to the prepayments of HK$7,974,000 was fully provided for those moulds for the production of certain models of Ruyan atomizing cigarettes were considered obsolescence.

iii Other receivables are unsecured, interest-free and repayable on demand.

24. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES *(CONTINUED)*

	2009 HK$'000	2008 HK$'000
Other receivables	**31,299**	35,874
Lees: Allowance	**(6,064)**	(4,016)
Other receivables (net of provision)	**25,235**	31,858

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

	2009 HK$'000	2008 HK$'000
Balance at beginning of the year	**4,016**	–
Charged for the year	**2,644**	4,016
Amounts recovered during the year	**(583)**	–
Exchange adjustments	**(13)**	–
Balance at end of the year	**6,064**	4,016

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

25. HELD-FOR-TRADING INVESTMENTS

	2009 HK$'000	2008 HK$'000
Equity securities listed in Hong Kong	**–**	923
Unlisted unit trust funds (note)	**–**	5,869
	–	6,792

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

26. BANK BALANCES AND CASH

At 31 December, 2009, there were bank balances and cash denominated in Renminbi ("RMB") amounting to approximately HK$22,092,000 (2008: HK$167,493,000) and carry interest at market rates which range from 0.2% to 0.8% (2008: 0.36% to 0.72%) per annum. RMB is not freely convertible into other currencies. Other bank balances and cash are denominated in Hong Kong dollars which carry interest at market rates which range from 0.001% to 0.06% (2008: 0.01% to 0.06%) per annum.

27. 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 **HK$'000**	2008 HK$'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

28. ACCRUALS AND OTHER PAYABLES

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

29. BORROWINGS

	THE GROUP	
	2009	2008
	HK$'000	HK$'000
Other borrowings-secured (note)	**–**	16,607
Carrying amounts repayable:		
On demand or within one year	**–**	6,348
More than one year but not exceeding two years	**–**	6,002
More than two years but not exceeding three years	**–**	4,257
	–	16,607
Less: Amounts due within one year shown under current liabilities	**–**	(6,348)
	–	10,259

Note: Other borrowings were interest-free and repayable by instalments until 28 August, 2011 and are secured by legal charges over certain of building and leasehold land of the Group. An imputed interest rate of 5.8% (2008: 5.8%) per annum was applied on the other borrowings for the year ended 31 December, 2009.

During the year, the Group has early repaid the borrowings by disposing certain office premises of the building.

30. CONVERTIBLE BONDS AND DERIVATIVE FINANCIAL INSTRUMENTS

On 31 July, 2007, the Company issued HK$151,000,000 convertible bonds (the "Old Convertible Bonds") bearing coupons of 2.5% per annum payable semi-annually in arrear and matures on 31 July, 2012 (the "Maturity Date"). The features of the Old Convertible Bonds are as follows:

(i) Conversion option

The Old Convertible Bonds can be converted into the Company's shares at a fixed conversion price of HK$1.59 initially, subject to adjustments. The conversion price was adjusted to HK$1.35 per share with effect from 31 July, 2008 in accordance with the terms and conditions agreed with the bondholder. Unless previously redeemed or converted into the Company's shares, the Company shall redeem the Old Convertible Bonds at 162.6088% of the principal amount of the Old Convertible Bonds on the Maturity Date.

(ii) Issuer early redemption option

The Company may redeem the Old Convertible Bonds, in whole or in part, at any time after the second anniversary of the issue of the Old Convertible Bonds and prior to the Maturity Date at a yield of 12% per annum calculated on a semi-annual basis from the date of the issue of the Old Convertible Bonds up to the relevant redemption date (the "Early Redemption Price") in the event that the volume weighted average price of the Company's shares exceeds 135% of the conversion price for at least 30 conservative trading days or in the event that at least 90% of the Old Convertible Bonds issued and outstanding has been redeemed or converted.

30. CONVERTIBLE BONDS AND DERIVATIVE FINANCIAL INSTRUMENTS *(CONTINUED)*

(iii) Bondholders early redemption option

On certain dates in 2009, 2010 and 2011, the bondholders will have the right to redeem, in whole or in part, the Old Convertible Bonds at the Early Redemption Price.

The net proceeds received from the issue of the Old Convertible Bonds contain liability component, conversion option, issuer early redemption option and bondholders early redemption option. The conversion option is not closely related to the liability component and is classified as a derivative because the conversion will not result in the Company issuing a fixed number of Share in settlement of a fixed amount of liability component. The issuer early redemption option and bondholders early redemption option are not closely related to the host contract as the early redemption amount is not closed to the amortised cost of the liability on the redemption date. Conversion option, issuer early redemption option and bondholders early redemption option are measured at fair value with change in fair value recognised in profit or loss.

First Redemption

On 27 July, 2009, the bondholders served a redemption notice to the Company for the redemption of 20% of the Old Convertible Bonds at an agreed redemption consideration of HK$38,363,000 (the "First Redemption"). The completion of the redemption took place on 31 July, 2009. On 31 July, 2009, the liability component of 20% of the Old Convertible Bonds was HK$30,752,000 which was stated at amortised cost using the effective interest method and the fair value of 20% of the derivative components of the Old Convertible Bonds at the date of First Redemption was HK$7,772,000. Gain on First Redemption of HK$161,000 has been credited to profit or loss.

Effective interest expense of HK$15,533,000 and gain on change in fair value of the embedded derivatives of HK$7,891,000 have been charged to the profit or loss for the year ended 31 December, 2009 upon the First Redemption.

Restructuring of the Old Convertible Bonds

On 7 August, 2009, the bondholders and the Company come to an agreement to amend the terms of the Old Convertible Bonds (the "New Convertible Bonds"). The approval of amendment was granted by the Stock Exchange on 14 August, 2009 and the restructuring of Old Convertible Bonds was completed on 28 August, 2009. The key changes are summarised below:

– the principal bearing coupon was amended from 2.5% to 4% per annum payable semi-annually in arrears.

– the maturity date was amended from 31 July, 2012 to 31 July, 2010 (the "Amended Maturity Date").

30. CONVERTIBLE BONDS AND DERIVATIVE FINANCIAL INSTRUMENTS *(CONTINUED)*

Restructuring of the Old Convertible Bonds *(continued)*

– the New Convertible Bonds could be converted into the Company's shares at: HK$0.75 per share if the conversion right was exercised during the period from the date of restructuring of the Old Convertible Bonds to 30 October, 2009; HK$0.7 per share if the conversion right was exercised during the period from 1 November, 2009 to 31 December, 2009; and HK$0.65 per share if the conversion right was exercised during 1 January, 2010 to the Amended Maturity Date.

– unless previously redeemed or converted into the Company's shares, the Company shall redeem the New Convertible Bonds at 147.47% of the principal amount of the New Convertible Bonds on the Amended Maturity Date.

– the Company may redeem the New Convertible Bonds, in whole or in part, at any time at early redemption price calculated based on redemption yields ("Redemption Yields"). The Redemption Yields for the period from 1 August, 2009 to 30 September, 2009, 1 October, 2009 to 31 December, 2009 and 1 January, 2010 to the Amended Maturity Date are 20%, 22.5% and 25% per annum respectively.

– On 28 August 2009 (date of restructuring of the Old Convertible Bonds), the liability component and the derivative components of the Old Convertible Bonds were derecognised. The liability component of the Old Convertible Bonds which was stated at amortised cost using the effective interest method and the fair value of the derivative components of the Old Convertible Bonds were HK$125,065,000 and HK$29,335,000 respectively as at 28 August 2009. The derivative component of HK$29,335,000 was mainly attributable to the bondholders early redemption option. The fair value of the conversion option and the issuer early redemption options were insignificant as at 28 August 2009.

– On 28 August 2009 (date of restructuring of the Old Convertible Bonds), the liability component and the derivative components of the New Convertible Bonds of HK$145,000,000 and nil respectively were recognised at fair value. The difference between the aggregate carrying value of the Old Convertible Bonds derecognised and fair value of the New Convertible Bonds recognised amounting to HK$9,400,000 is credited to the profit or loss as gain on restructuring of convertible bonds.

Effective interest expense of HK$2,036,000 and gain on change in fair value of the embedded derivatives of HK$1,752,000 have been recognised in profit or loss for the year ended 31 December 2009 upon the restructuring of the Old Convertible Bonds.

30. CONVERTIBLE BONDS AND DERIVATIVE FINANCIAL INSTRUMENTS *(CONTINUED)*

Second redemption

On 30 September, 2009, the Company and the bondholders came to an agreement to redeem certain portion of the New Convertible Bonds with principal amount of HK$4,800,000.

The movement of different components of the Old Convertible Bonds and New Convertible Bonds during the year are set out below:

Old Convertible Bonds

	Liability HK$'000	Embedded derivatives, representing, conversion option, issuer early redemption option, and bondholders early redemption option HK$'000	Total HK$'000
At 1 January, 2008	119,740	29,940	149,680
Interest charged	24,171	–	24,171
Interest paid	(3,775)	–	(3,775)
Change in fair value	–	16,810	16,810
At 31 December, 2008	140,136	46,750	186,886
Interest charged	15,533	–	15,533
Interest paid	(1,888)	–	(1,888)
First Redemption	(30,752)	(7,772)	(38,524)
Change in fair value	–	(7,891)	(7,891)
At 31 July, 2009 (Date of First Redemption)	123,029	31,087	154,116
Interest charged	2,036	–	2,036
Change in fair value	–	(1,752)	(1,752)
Restructuring of Old Convertible Bonds	(125,065)	(29,335)	(154,400)
At 28 August, 2009 (Date of Restructuring of Old Convertible Bonds)	–	–	–

30. CONVERTIBLE BONDS AND DERIVATIVE FINANCIAL INSTRUMENTS *(CONTINUED)*

New Convertible Bonds

	Liability HK$'000	Embedded derivatives, representing, conversion option and issuer early redemption option HK$'000	Total HK$'000
At 1 January, 2009	–	–	–
Restructuring of Old Convertible Bonds	145,000	–	145,000
Interest charged	12,001	–	12,001
Second Redemption	(4,800)	–	(4,800)
Interest paid	(201)	–	(201)
At 31 December, 2009	152,000	–	152,000

The methods and assumptions applied for the valuation of the convertible bonds are as follows:

(1) Valuation of liability component

At the date of issue, the liability component was recognised at fair value. The fair value of liability component was calculated based on the present value of the contractually determined stream of future cash flows discounted at the required yield, which was determined with reference to the average yield of notes with similar credit rating and remaining time to maturity. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. The effective interest rate of the liability component of Old Convertible Bonds and New Convertible Bonds are 16% and 24% respectively. As the bondholders of the Old Convertible Bonds have rights to give notice to the Company requesting the Company to redeem all or some of the Old Convertible Bonds on 30 June, 2009, the liability component of the Old Convertible Bonds was classified as current liability as at 31 December, 2008. As the New Convertible Bonds will be mature on 31 July, 2010, the liability component of the New Convertible Bonds is classified as current liability as at 31 December, 2009.

30. CONVERTIBLE BONDS AND DERIVATIVE FINANCIAL INSTRUMENTS *(CONTINUED)*

(2) Valuation of conversion option

(i) For Old Convertible Bonds

Binomial model is used for valuation of conversion option of the Old Convertible Bonds. The inputs into the model were as follows:

	31 December 2008	**31 July 2009**	**28 August 2009**
Stock price	HK$0.185	**HK$0.235**	**HK$0.178**
Exercise price	HK$1.35	**HK$1.35**	**HK$1.35**
Volatility	51%	**45%**	**45%**
Option life	3.58 years	**3 year**	**2.9 years**
Risk free rate	0.92%	**0.99%**	**0.96%**

(ii) For New Convertible Bonds

Binomial model is used for valuation of conversion option of the New Convertible Bonds. The inputs into the model were as follows:

	28 August 2009	**30 September 2009**	**31 December 2009**
Stock price	HK$0.178	**HK$0.154**	**HK$0.184**
Exercise price	(note)	**(note)**	**(note)**
Volatility	41%	**33%**	**35%**
Option life	0.9 years	**0.8 years**	**0.6 years**
Risk free rate	0.21%	**0.16%**	**0.17%**

Note: HK$0.75 per share from 28 August 2009 to 30 October 2009; HK$0.7 per share from 1 November, 2009 to 31 December, 2009; and HK$0.65 per share from 1 January, 2010 to the Amended Maturity Date.

30. CONVERTIBLE BONDS AND DERIVATIVE FINANCIAL INSTRUMENTS *(CONTINUED)*

(3) Valuation of issuer and bondholders early redemption options

(i) For Old Convertible Bonds

Binomial model is used for valuation of issuer and bondholders early redemption option of the Old Convertible Bonds. The inputs into the model were as follows:

	31 December 2008	**31 July 2009**	**28 August 2009**
Stock price	HK$0.185	**HK$0.235**	**HK$0.178**
Volatility	51%	**45%**	**45%**
Option life	3.58 years	**3 year**	**2.9 years**
Risk free rate	0.92%	**0.99%**	**0.96%**

(ii) For New Convertible Bonds

Binomial model is used for valuation of issuer redemption option of the New Convertible Bonds. The inputs into the model were as follows:

	28 August 2009	**30 September 2009**	**31 December 2009**
Stock price	0.178	**HK$0.154**	**HK$0.184**
Volatility	41%	**33%**	**35%**
Option life	0.9 years	**0.8 years**	**0.6 years**
Risk free rate	0.21%	**0.16%**	**0.17%**

Notes:

(a) Expected volatility was determined by calculating the historical volatility of the Company's share price.

(b) Expected life was the remaining life of the respective options.

(c) The risk free rate is determined by reference to the Hong Kong Government Bond Yield.

During the year, HK$9,643,000 (2008: HK$16,810,000) was recognised in profit or loss as change in fair value of derivative financial instruments.

31. AMOUNT DUE TO A SHAREHOLDER/AMOUNT DUE TO A MINORITY SHAREHOLDER

The amount due to a shareholder is non-trade nature, unsecured, non-interest bearing and repayable on demand.

Subsequent to the end of the reporting period, the Group disposed of its 51% equity interest in Ruyan America Inc. to an independent third party. The amount due to the Minority Shareholder of HK$21,011,000 is derecognised upon the disposal of Ruyan America Inc.

32. SHARE CAPITAL

	Number of shares '000	Share capital HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January, 2008, 31 December, 2008 and 2009	2,000,000	200,000
Issued and fully paid:		
At 1 January, 2008, 31 December, 2008 and 2009	1,513,360	151,336

33. SHARE-BASED PAYMENTS

Equity-settled share option scheme:

The Company's share option scheme (the Scheme), was adopted pursuant to a resolution passes on 30 May, 2003 for the primary purpose of providing incentives to participants, including executive directors of the Company and its subsidiaries. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

33. SHARE-BASED PAYMENTS *(CONTINUED)*

The following table discloses movements in the Company's share options during the year:

Category of participants	Date of share options granted (note i)	No. of share options granted during year 2008 and as at 1 January, 2009	No. of share options granted during the period	No. of share options lapsed during the period	No. of share options outstanding as at 31 December, 2009	Exercise period	Exercise price per share option (HK$)
Directors							
Wong Yin Sen	9 January, 2008	1,500,000	–	–	1,500,000	11 January, 2008 to 10 January, 2013	0.60
Hon Lik	9 January, 2008	1,500,000	–	–	1,500,000	4 February, 2008 to 3 February, 2013	0.60
Wong Hei Lin	9 January, 2008	1,500,000	–	–	1,500,000	4 February, 2008 to 3 February, 2013	0.60
Li Kim Hung	9 January, 2008	15,000,000	–	(15,000,000)	–	24 January, 2008 to 23 January, 2013	0.60
Pang Hong	9 January, 2008	1,000,000	–	–	1,000,000	14 January, 2008 to 13 January, 2013	0.60
Cheung Kwan Hung	9 January, 2008	1,000,000	–	–	1,000,000	11 January, 2008 to 10 January, 2013	0.60
Ding Xun	9 January, 2008	1,000,000	–	–	1,000,000	22 January, 2008 to 21 January, 2013	0.60
		22,500,000			7,500,000		
Employees (in aggregate)							
	9 January, 2008	22,600,000	–	–	22,600,000	6 February, 2008 to 5 February, 2013	0.60
	18 February, 2008	1,000,000	–	–	1,000,000	17 March, 2008 to 16 March, 2013	0.70
	28 February, 2008	6,000,000	–	(2,000,000)	4,000,000	27 March, 2008 to 26 March, 2013	0.70
	5 June, 2008	2,000,000	–		2,000,000	3 July, 2008 to 2 July, 2013	0.62
	20 November, 2009	–	6,000,000	–	6,000,000	20 November, 2009 to 19 November, 2013	0.167
		31,600,000			35,600,000		
Others (note ii)							
	6 May, 2008	2,000,000	–	–	2,000,000	3 June, 2008 to 2 June, 2013	0.61
	30 March, 2009	–	15,000,000	–	15,000,000	30 March, 2009 to 29 March, 2013	0.4
		2,000,000			17,000,000		
Total		56,100,000			60,100,000		

33. SHARE-BASED PAYMENTS *(CONTINUED)*

Notes:

(i) The share options granted to directors were vested immediately while the share options granted to employees and other individually were vested on a straight-line basis over three years from the date when the share options were granted.

(ii) These are individuals who rendered consultancy services in respect of management of the Ruyan atomizing cigarettes to the Group. The Group granted share options to them for recognising their services similar to those rendered by other employees.

The closing prices of the Company's shares immediately before 30 March, 2009 and 20 November, 2009, the dates of grant of the 2009 options, were HK$0.17 and HK$0.167 respectively (closing prices of the Company's shares immediately before 9 January, 2008, 18 February, 2008, 28 February, 2008, 6 May, 2008 and 5 June, 2008, the dates of grant of the 2008 options, were HK$0.61, HK$0.70, HK$0.70, HK$0.61 and HK$0.62 respectively).

In the current year, share options were granted on 30 March, 2009 and 20 November, 2009. The fair values of the options determined at the dates of grant using the Binominal model approximately were HK$853,000 and HK$475,000 respectively (fair values of share options granted on 9 January, 2008, 18 February, 2008, 28 February, 2008, 6 May, 2008 and 5 June, 2008, determined at the dates of grant using the Binominal model, were approximately HK$10,303,000, HK$248,000, HK$1,497,000, HK$453,000 and HK$460,000 respectively.)

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

	30.3.2009	**20.11.2009**	9.1.2008	18.2.2008	28.2.2008	6.5.2008	5.6.2008
Grant date share price	**HK$0.17**	**HK$0.167**	HK$0.61	HK$0.70	HK$0.70	HK$0.61	HK$0.62
Exercise price	**HK$0.12**	**HK$0.167**	HK$0.60	HK$0.70	HK$0.70	HK$0.61	HK$0.62
Option life	**3 years**	**3 years**	5 years	5 years	5 years	5 years	5 years
Expected volatility	**91%**	**92%**	44.9%	45.5%	45.6%	–	–
Dividend yield	**–**	**–**	–	–	–	–	–
Risk-free interest rate	**1.48%**	**1.29%**	2.83%	2.19%	2.33%	2.46%	2.91%

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

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

In the current period, an amount of share-based payment expenses in respect of its share options of HK$2,976,000 (2008: HK$10,510,000) has been recognised in the consolidated statement of comprehensive income with a corresponding adjustment recognised in the Group's share option reserve.

34. CAPITAL COMMITMENTS

	2009 HK$'000	2008 HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of		
– acquisition of intangible assets	**295**	229
– acquisition of a subsidiary	**–**	10,000
	295	10,229

35. OPERATING LEASES

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments in respect of rented premises which fall due as follows:

	2009 HK$'000	2008 HK$'000
Within one year	**1,241**	3,255
In the second to fifth year	**–**	–
	1,241	3,255

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

36. RETIREMENT BENEFITS SCHEMES

The Group operates a mandatory provident fund scheme (the "Scheme") for all qualifying employees of the Group in Hong Kong. The assets of the Scheme are held separately from those of the Group, in funds under the control of the trustees. During the year, contributions made by the Group to the Scheme amounted HK$109,000 (2008: HK$216,000).

The employees of the subsidiaries in the PRC are members of retirement benefits schemes operated by the PRC government. The relevant PRC subsidiaries are required to make contributions to the state retirement schemes in the PRC based on certain percentage of the monthly salaries of their current employees to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specific contributions.

During the year, contributions made by the Group to the state retirement schemes amounted HK$727,000 (2008: HK$1,377,000).

The contributions made by the Group to the Scheme and state retirement schemes are charged to the consolidated statement of comprehensive income when employees have rendered service to the Group.

37. RELATED PARTY TRANSACTIONS

The balances with the related parties have been disclosed in note 31 to the consolidated financial statements and the consolidated statement of financial position.

The Group is managed by the directors and details of the directors' emoluments are disclosed in note 13.

38. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2009, partial sales proceeds from the disposal of property, plant and equipment and prepaid lease payment of HK$14,852,000 was set-off with other borrowings.

39. PRINCIPAL SUBSIDIARIES

The following table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Name of subsidiary	Place of incorporation or registration/ operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company 2009 %	2008 %	Principal activities
Chenlong Group Limited	BVI/ Hong Kong	US$20,000	100	100	Investment holding
集安新華龍參業有限公司 Jian New Wellon Ginseng Industry Co., Ltd. ("Jian New Wellon")	PRC	RMB7,000,000 (note a)	100	100	Purchase and sales of raw ginseng
新華龍有限公司 New Wellon Limited	Hong Kong	HK$10,000	100	100	Investment holding
瀋陽辰龍保齡參有限公司 Shenyang Chenlong	PRC	US$3,705,000 (note b)	100	100	Processing and sales of a series of health care products
瀋陽金龍保健品有限公司 Shenyang Jinlong	PRC	US$1,220,000 (note c)	100	100	Processing and sales of ginseng and related products
瀋陽金龍藥業有限公司 Shenyang Jinlong Pharmaceutical Co., Ltd. ("Jinlong Pharmaceutical")	PRC	HK$20,000,000 (note d)	100	100	Processing and sales of Pharmaceutical products and production of electronics cigarettes components
Success Century Holding Limited ("Success Century")	BVI/Hong Kong	US$50,000	100	100	Investment holding

39. PRINCIPAL SUBSIDIARIES *(CONTINUED)*

Name of subsidiary	Place of incorporation or registration/ operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
			2009	2008	
			%	%	
Ruyan Group (Hong Kong) Limited	Hong Kong	HK$100	**100**	100	Investment holding
北京賽波特如烟科技發展有限公司 Beijing SBT Technology Development Co., Ltd. ("BJ SBT")	PRC	US$5,000,000 (note f)	**100**	100	Research and develop production and sales of Ruyan atomizing cigarettes
瀋陽賽波特科技發展有限公司 Shenyang SBT Technology Development Co., Ltd. ("Shenyang SBT")	PRC	US$500,000 (note f)	**100**	100	Research and develop production and sales of Ruyan atomizing cigarettes
天津賽波特如烟科技發展有限公司 Tianjian SBT Technology Development Co., Ltd. ("Tianjian SBT")	PRC	HK$56,000,000 (note f)	**100**	100	Research and develop production and sales of Ruyan atomizing cigarettes
Ruyan America Inc.	State of Minnesota	US$1,000	**51**	51	Sales of Ruyan atomizing cigarettes
北京埃迪歐亞商貿有限責任公司	PRC	RMB100,000 (note e)	**100**	100	Sales of Ruyan atomiz

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

Notes:

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

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

39. PRINCIPAL SUBSIDIARIES *(CONTINUED)*

Notes: *(continued)*

(c) Shenyang Jinlong is a sino-foreign equity joint venture for a period of 15 years commencing from 27 November, 1992 established under a joint venture agreement with another PRC party who is the former shareholder of Success Century holding the remaining 20% shareholding of Shenyang Jinlong.

Pursuant to an agreement made between the Group and the former shareholder of Success Century during the year 2004, the remaining 20% shareholding of Shenyang Jinlong was transferred to the Group by way of acquisition of Success Century and Shenyang Jinlong became the wholly foreign owned enterprise.

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

(e) 北京埃迪歐亞商貿有限責任公司 is a wholly foreign-owned enterprise for a period of 20 years commencing from 13 December, 2007.

(f) BJ SBT, Shenyang SBT and Tianjian SBT are wholly foreign-owned enterprises for a period of 15 years since year 2005.

40. EVENT AFTER THE REPORTING PERIOD

(a) The Company received a conversion notice on 3 February, 2010, pursuant to which, the holder of a principal amount of HK$12,800,000 exercised the conversion rights to convert certain New Convertible Bonds at a conversion price of HK$0.65 per share. The conversion was completed on 9 February, 2010. The Company was negotiating with bondholders of the remaining New Convertible Bonds for a settlement price. No agreement has been reached up to the date of the report. In the opinion of the directors of the Company, the settlement price for the remaining New Convertible Bonds should be less than HK$65 million. If the settlement price for the remaining New Convertible Bonds is agreed at an amount less than its carrying value, a gain on early redemption will be recognised in profit or loss.

(b) On 21 March, 2010, the Company entered into a placing agreement with Chung Nam Securities Limited (the "Placing Agent"), pursuant to which, the Placing Agent undertook to place convertible bonds with an aggregate principal amount of HK$250,000,000 to independent investors (the "Placing of Convertible Bonds"). As of the date of the report, the Placing of Convertible Bonds was not completed.

(c) 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.

(d) On 20 April 2010, the Company proposed to raise approximately HK$76.66 million to approximately HK$87.60 million before expenses by way of the 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.

(e) On 23 April 2010, the disposal of the Company's 51% equity interest in Ruyan America to an independent third party was completed. A gain on disposal of a subsidiary of approximately HK$21 million will be recognised in profit or loss.

Financial Summary

For the Year ended 31 December 2009

	Year ended 31 December,				
	2009	2008	2007	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
				(restated)	(restated)
				(note)	(note)
RESULTS					
Revenue	**97,586**	424,045	275,382	402,851	265,057
(Loss) profit before tax	**(441,855)**	(147,374)	38,734	84,289	43,479
Income tax expense	**(2,052)**	(17,270)	(4,495)	(2,023)	(2,769)
(Loss) profit for the year	**(443,907)**	(164,644)	34,239	82,266	40,710
Attributable to:					
Owners of the Company	**(443,907)**	(164,644)	26,116	51,894	28,177
Minority interest	**–**	–	8,123	30,372	12,533
	(443,907)	(164,644)	34,239	82,266	40,710

	As at 31 December,				
	2009	2008	2007	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
				(restated)	(restated)
				(note)	(note)
ASSETS AND LIABILITIES					
Total assets	**271,412**	769,861	885,527	604,605	461,516
Total liabilities	**(227,205)**	(286,654)	(280,710)	(203,303)	(156,982)
Preferred shares issued by a subsidiary	**–**	–	–	–	(35,793)
	44,207	483,207	604,817	401,302	268,741
Equity attributable to owners of the Company	**44,207**	483,207	604,817	363,534	252,320
Minority interest	**–**	–	–	37,768	16,421
	44,207	483,207	604,817	401,302	268,741

Note: During the year 31 December 2007, the Company has accounted for the Acquisition in accordance with the Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") to prepare the consolidated financial statements, assuming that the current group structure had been in existence throughout the years presented. Accordingly, the prior year figures have been restated.