



SANYUAN GROUP LIMITED

三元集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code:140)

2006 INTERIM RESULTS

The board of directors (the “Board”) of Sanyuan Group Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2006.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2006

	Note	Six months ended 30 June 2006 HK\$'000 (Unaudited)	Six months ended 30 June 2005 HK\$'000 (Unaudited)
Turnover	4	73,669	465
Other income		5,078	63
Changes in inventories		(70,194)	(150)
Depreciation		(169)	(195)
Staff costs		(1,595)	(2,031)
Other operating expenses		(3,685)	(2,671)
Reversal of losses of subsidiaries on deconsolidation		–	13,021
Gain on forfeiture of deposits received		–	8,700
Finance costs		(2,653)	(186)
Profit before taxation	5	451	17,016
Taxation	6	(566)	–
(Loss)/profit for the period		<u>(115)</u>	<u>17,016</u>
Attributable to:			
Equity holders of the Company		(575)	17,016
Minority interests		460	–
		<u>(115)</u>	<u>17,016</u>
(Loss)/earnings per share	7		
– Basic		(0.06 HK cents)	1.78 HK cents
– Diluted		N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2006

	At 30 June 2006 HK\$'000 (Unaudited)	At 31 December 2005 HK\$'000 (Audited)
ASSETS AND LIABILITIES		
Non-current assets		
Property, plant and equipment	<u>630</u>	<u>600</u>
Current assets		
Inventories	4,095	4,775
Financial assets at fair value through profit or loss	272	204
Trade and other receivables	42,995	15,513
Bank balances and cash	<u>13,465</u>	<u>17,369</u>
	<u>60,827</u>	<u>37,861</u>
Current liabilities		
Borrowings	1,339	1,244
Trade and other payables	37,432	18,266
Provision for taxation	162	–
Provisions	18,850	18,850
Convertible note	<u>–</u>	<u>25,663</u>
	<u>57,783</u>	<u>64,023</u>
Net current assets/(liabilities)	<u>3,044</u>	<u>(26,162)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	3,674	(25,562)
Long term borrowing		
Convertible note	<u>24,847</u>	<u>–</u>
	<u>(21,173)</u>	<u>(25,562)</u>
Capital and reserves		
Share capital	19,078	19,078
Reserves	61,592	61,513
Accumulated losses	<u>(112,497)</u>	<u>(111,922)</u>
Total equity attributable to equity holders of the Company	(31,827)	(31,331)
Minority interests	<u>10,654</u>	<u>5,769</u>
	<u>(21,173)</u>	<u>(25,562)</u>

1. INDEPENDENT REVIEW

The interim results for the six months ended 30 June 2006 are unaudited, but have been reviewed by RSM Nelson Wheeler in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports”, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), whose modified independent review report is included in the interim report to be sent to the shareholders of the Company. The interim results have also been reviewed by the Audit Committee of the Company.

2. BASIS OF PREPARATION

This unaudited interim financial report has been prepared in accordance with the Hong Kong Accounting Standard 34 “Interim financial reporting” issued by the HKICPA and the applicable disclosures required by the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Group had capital deficiency of HK\$21,173,000 at 30 June 2006. The interim financial report has been prepared on a going concern basis, the validity of which depends upon the continuous financial support by the Group’s ultimate holding company at a level sufficient to finance the Group’s current activities. The Group’s ultimate holding company has confirmed its willingness to finance the Group’s current activities. Moreover, the Group’s ultimate holding company has extended the maturity date of the HK\$30,000,000 convertible note issued by the Company to the Group’s ultimate holding company from 7 December 2006 to 7 December 2007.

Should the Group fail to prepare the interim financial report on a going concern basis, adjustments would have to be made to the interim financial report to adjust the value of the Group’s assets to their recoverable amounts, to provide for any liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities respectively.

3. SIGNIFICANT ACCOUNTING POLICIES

This interim financial report has been prepared in accordance with the same accounting policies adopted in the 2005 annual financial statements.

4. TURNOVER

	Six months ended 30 June 2006 HK\$’000 (unaudited)	Six months ended 30 June 2005 HK\$’000 (unaudited)
Sale and distribution of pharmaceutical products	73,059	–
Laboratory testing service income	610	465
	<u>73,669</u>	<u>465</u>

5. PROFIT BEFORE TAXATION

This is stated after crediting/(charging):

	Six months ended 30 June 2006 HK\$’000 (unaudited)	Six months ended 30 June 2005 HK\$’000 (unaudited)
(a) Other income		
Interest income	135	–
Guarantee income earned	1,333	–
	<u>1,468</u>	–
Total other revenue	1,468	–
Gain on adjustment of the amortised cost of the convertible note	3,375	–
Others	235	63
	<u>5,078</u>	<u>63</u>
(b) Finance cost		
Interest on bank overdrafts and borrowings	–	(90)
Imputed interest on convertible note	(2,559)	–
Interest on other borrowings	(94)	(96)
	<u>(2,653)</u>	<u>(186)</u>

6. TAXATION

(a) Taxation in the income statement represents:

	Six months ended 30 June 2006 HK\$'000 (unaudited)	Six months ended 30 June 2005 HK\$'000 (unaudited)
PRC enterprise income tax	<u>566</u>	<u>–</u>

(b) No provision for Hong Kong Profits Tax is required since the Group has no assessable profit for the six months period ended 30 June 2006 and 2005.

(c) The provision for the PRC enterprise income tax is based on a statutory tax rate of 33% of the assessable profit of the Group as determined in accordance with the relevant income tax rules and regulations of the PRC for the six months ended 30 June 2006. No provision for PRC enterprise income tax for the six months period ended 30 June 2005 is required since the Group has no assessable profit in this period.

7. (LOSS)/EARNINGS PER SHARE

The calculation of basic loss per share for the six months ended 30 June 2006 was based on the consolidated loss attributable to equity holders of the Company of approximately HK\$575,000 (*Six months ended 30 June 2005: profit of approximately HK\$17,016,000*) and the 953,906,963 shares (*Six months ended 30 June 2005: 953,906,963 shares*) in issue during the six months ended 30 June 2006.

Diluted loss per share for the six months ended 30 June 2006 has not been disclosed as the convertible note outstanding has an anti-dilutive effect on the basic loss per share during the six months ended 30 June 2006. No disclosure of diluted earnings per share for the six months ended 30 June 2005 has been made as there were no potential dilutive ordinary shares outstanding.

AUDITORS' REVIEW CONCLUSION EXTRACTED FROM INDEPENDENT REVIEW REPORT

“Fundamental uncertainty

In arriving at our review conclusion, we have considered the adequacy of the disclosures made in the interim financial report concerning the basis of preparation of the interim financial report adopted by the directors. As explained in note 1 to the interim financial report, the Group had capital deficiency of HK\$21,173,000 at 30 June 2006. The interim financial report has been prepared on a going concern basis, the validity of which depends upon the continuous financial support by the Group's ultimate holding company at a level sufficient to finance the Group's current activities. The Group's ultimate holding company has confirmed its willingness to finance the Group's current activities. Moreover, as stated in note 8 to the interim financial report, the Group's ultimate holding company has extended the maturity date of the HK\$30,000,000 convertible note from 7 December 2006 to 7 December 2007. The circumstances relating to this fundamental uncertainty are described in note 1 to the interim financial report. We consider that the fundamental uncertainty has been adequately disclosed in the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2006.”

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

The financial position, performance and level of operations of the Group improved substantially during the period under review as the Group recorded significant business activities that resulted in increases in turnover and total assets.

Financial Results

For the period ended 30 June 2006, the Group recorded a turnover of approximately HK\$73,669,000 representing an increase of 157 times or HK\$73,204,000 in turnover over that of the corresponding period last year. The significant increase was attributable to the inclusion of the result of Tianjin Jinshun Pharmaceutical Co., Ltd. (“Tianjin Jinshun”), the 60% owned subsidiary in Tianjin, the PRC.

On 7 April 2006, Hong Jin Holdings Limited (“Hong Jin”), the controlling shareholder of the Company exercised its discretion to extend the maturity date of a HK\$30 million zero-coupon convertible note (the “Note”) by one year to 7 December 2007. Accordingly, the Group recorded a gain on adjustment of amortised cost of the convertible note of HK\$3,375,000.

During the period, the Group recognised a guarantee income receivable from two minority shareholders of Tianjin Jinshun in the amount of HK\$1,333,000 pursuant to the joint venture agreement in respect of the formation and running of Tianjin Jinshun.

These contributed to the Group recording a total other income of HK\$5,078,000 for the first six months of 2006.

Consolidated loss for the period was HK\$115,000 as compared to a profit of HK\$17,016,000 for the same period in 2005. Excluding the non-recurrent gains of HK\$13,021,000 and HK\$8,700,000 arising from the reversal of losses of subsidiaries on deconsolidation and forfeiture of deposits received respectively recorded in 2005, the Group's half yearly results actually improved substantially compared to the first half of 2005.

Finance cost for the six months ended 30 June 2006 increased by HK\$2,467,000 or 13 times to HK\$2,653,000. The increase was attributable to the imputed interest incurred on the Note, with no cashflow implication to the Group.

Staff cost of the Group continued to drop, and by 21.5% compared to HK\$2,031,000 of the corresponding period to approximately HK\$1,595,000 for the period under review. However, other operating expenses of the Group increased by approximately 38.0% or HK\$1,014,000 as a result of Tianjin Jinshun becoming fully operational during the period.

Loss per share for the period was 0.06 HK cents (*Six months ended 30 June 2005: earnings per share of 1.78 HK cents*) because of the loss recorded for the period.

Review of Operations

Hong Kong

During the period, the operation in Hong Kong accounted for approximately 0.8% (*Six months ended 30 June 2005: 100.0%*) of the total turnover of the Group, contributed by the pharmaceutical and healthcare unit of the Group – GenePro Medical Biotechnology Ltd. (“GenePro”). Despite stiff competition, GenePro had increased in (i) market share in paternity/forensic testing sector; (ii) activities related to the more expensive and yet more complicated cases that were solved by its in-house technology; and (iii) direct sales to walk-in customers. As a result, the turnover of GenePro increased by 31.2% to approximately HK\$610,000 during the period under review and is in a healthy trend.

As GenePro developed its own technology which utilises raw material from suppliers rather than expensive testing kits from external sources, gross profit margin also improved during the period.

The PRC

Since the beginning of 2006, the Chinese government has undertaken control measures on the pharmaceutical market and health institutions as a result of a series of changes in senior pharmaceutical regulators.

This slow down in governmental approvals has translated into a number of new products which the Group planned to introduce in the first half of 2006 to be postponed. Only several new products were introduced. Nonetheless, the Group continued to distribute its existing products which generated a respectable revenue of approximately HK\$73,059,000 for the first half of 2006 which accounted for 99.2% (*Six months ended 30 June 2005: nil*) of that of the Group.

Save for the operation of Tianjin Jinshun, there were no significant changes in respect of other activities of the Group as compared to the first half of 2005 and no material acquisitions and disposals of subsidiaries and associates during the six months ended 30 June 2006.

Liquidity and Financial Resources

Total assets of the Group increased to approximately HK\$61,457,000 as at 30 June 2006 (*31 December 2005: HK\$38,461,000*). Among the total assets, HK\$60,827,000 (*31 December 2005: HK\$37,861,000*) were current assets including trade and other receivables of HK\$42,995,000, bank balances and cash of HK\$13,465,000.

At 30 June 2006, the Group had total liabilities of HK\$82,630,000 including the Note of HK\$30 million held by the controlling shareholder of the Company. Because of the extension of the maturity date to 7 December 2007, the carrying value of the Note amounted to HK\$24,847,000 was recognised as long term borrowing. Current liabilities of the Group as at the balance sheet date were HK\$57,783,000 (*31 December 2005: HK\$64,023,000*) comprising of other borrowings of HK\$1,339,000, trade and other payables of HK\$37,432,000 and provisions of HK\$18,850,000. The Note is to be converted to new shares of HK\$0.17 each upon the resumption of trading of the Company's share.

Gearing ratio (total liabilities as a percentage of total assets) of the Group decreased to 134.5% of the current period (*31 December 2005: 166.5%*). Current ratio improved substantially from 59.1% as at 31 December 2005 to 105.2% as at 30 June 2006.

At the period end, the Group had capital deficiency of HK\$21,173,000. Should the Note be converted, the Group's net liabilities position will be reverted to net assets position.

Most of the sales, sales-related costs and expense, and a portion of the assets and liabilities of the Group are denominated in Renminbi. Renminbi revenue and profit generated are applied to meet the Renminbi obligations of the Group. Other cash and cash equivalents, investments and borrowings of the Group were made in Hong Kong dollars. As such, no financial instruments had been used for hedging purpose. During the period, the Group had not been exposed to any material exchange rate fluctuation.

Charges on assets

As at 30 June 2006, certain assets of the Group with an aggregated carrying value of approximately HK\$330,000 were pledged to secure the Group's borrowings as compared to HK\$266,000 as at 31 December 2005.

Employee remuneration policy and number of employees

As at 30 June 2006, the Group engaged 63 employees in Hong Kong and the PRC. The remuneration policy and package, including the share options, of the Group's employees are maintained at competitive level and reviewed annually by the Remuneration Committee.

Contingent liabilities

There has been no material change in contingent liabilities since the publication of the Company's 2005 Annual Report.

Prospects

During the period under review, the Group experienced improvement in financial position and at operation level. The directors are confident that they have found the right way to bring the Group back to profitability and persistent business growth. With this belief in mind, the directors will continue to develop the business of the Group by focusing on the targets set out in the Company's annual report 2005.

The Company has also reached settlement with a plaintiff of a legal action against the Company and is now waiting for the execution of the formal agreement with the counterparty. In this regard, the liabilities of the Company are expected to be further reduced in the latter half of 2006. Announcements will be made by the Company regarding the development on the settlement as and when appropriate.

On the financial front, the Group has been considering using equity finance to strengthen its financial resources for future opportunities in pharmaceuticals via increasing its capital base for several months. To put plan to action, the Company is negotiating with its controlling shareholder regarding a proposed rights issue on fully underwritten basis to raise approximately HK\$45 million. This is expected to be concluded shortly and an announcement pursuant to the requirements of the Listing Rules will be made.

Trading of the shares of the Company has been suspended at the request of the Company since 13 May 2004. According to Rule 13.24 of the Listing Rules, the Company shall carry out, directly or indirectly, a sufficient operations or have tangible assets of sufficient value and/or intangible assets for which a sufficient potential value can be demonstrated to the Stock Exchange to warrant the continued listing of its shares. A proposal was submitted to the Stock Exchange to demonstrate the Company's compliance with Rule 13.24. The Listing Committee and Listing (Review) Committee have rejected the proposal and the Company currently is in the process of appealing to the Stock Exchange against this decision. In view of the improvements in its financial position and operation level had been achieved since last year, further possible reduction of liabilities and funding from the proposed rights issue as aforementioned, the business is viable and sustainable and the directors are optimistic that it can achieve the resumption of trading of its shares.

AUDIT COMMITTEE

The Audit Committee has three members including Mr. Zhou Haijun, Mr. Ng Wai Hung and Mr. Xu Zhi, all of them are independent non-executive directors.

The Audit Committee of the Company has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited interim financial report. The interim financial report have not been audited, at the request of the directors, the Group's external auditors have carried out a review of the unaudited interim financial report.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2006 (*Six months ended 30 June 2005: Nil*).

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the period ended 30 June 2006.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Listing Rules throughout the accounting period covered by the interim report, with deviations from code provision A.4.1 of the CG Code that the independent non-executive directors of the Company are not appointed for specific terms. However, all directors (executive and independent non-executive) are subject to retirement by rotation in accordance with the Company's Articles of Association. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all directors, the Company confirms that all directors have complied with the required standard set out in the Model Code throughout the accounting period covered by the interim report.

PUBLICATION OF FINANCIAL INFORMATION

The interim report of the Company for the period ended 30 June 2006 containing all the information required by the Listing Rules will be published on the website of the Stock Exchange in due course.

By Order of the Board
Wu Kwai Yung
Chairman

Hong Kong SAR, 27 September 2006

As at the date of this announcement, the Board comprises six Directors: Mr. Wu Kwai Yung, Mr. Zhao Tie Liu and Dr. Wan Kwong Kee are the executive Directors; Mr. Zhou Haijun, Mr. Ng Wai Hung and Mr. Xu Zhi are the independent Non-executive Directors.

Please also refer to the published version of this announcement in China Daily.