SANYUAN GROUP LIMITED
三元集團有限公司

(Incorporated in Hong Kong with limited liability)
(Stock code: 140)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2006

RESULTS

The Board of Directors (the "Board") of Sanyuan Group Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2006 together with the comparative figures for the year ended 31 December 2005 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2006

	Note	2006 HK$'000	2005 HK$'000 (Restated)
Turnover	2	**144,383**	11,207
Cost of sales		**(138,039)**	(9,937)
Gross profit		**6,344**	1,270
Other revenue	2	**9,318**	559
Selling and distribution costs		**(543)**	(40)
General and administrative expenses		**(10,774)**	(10,839)
Other operating expenses		**(366)**	(127)
Operating profit/(loss)		**3,979**	(9,177)
Reversal of losses of subsidiaries on deconsolidation		**–**	13,021
Gain on forfeiture of deposits received		**–**	8,700
Finance costs	4	**(4,494)**	(266)
(Loss)/profit before income tax	5	**(515)**	12,278
Income tax expenses	6	**(969)**	–
(Loss)/profit for the year		**(1,484)**	12,278
(Loss)/profit attributable to:			
Equity holders of the Company	7	**(2,421)**	12,278
Minority interests		**937**	–
		(1,484)	12,278
Dividends		**–**	–
(Loss)/earnings per share attributable to the equity holders of the Company during the year	8		
– basic		**(HK 0.25 cents)**	HK 1.29 cents
– diluted		**HK 0.16 cents**	HK 1.23 cents

CONSOLIDATED BALANCE SHEET

As at 31 December 2006

	Note	2006 HK$'000	2005 HK$'000 (Restated)
Non-current assets			
Property, plant and equipment		**549**	600
Available-for-sale securities		**–**	–
		549	600
Current assets			
Inventories		**4,781**	4,775
Trade and other receivables	*9*	**30,522**	15,513
Financial assets at fair value through profit or loss		**272**	204
Cash and cash equivalents		**13,230**	17,369
		48,805	37,861
Current liabilities			
Trade and other payables	*10*	**25,773**	17,886
Other borrowing		**1,444**	1,244
Convertible note		**26,544**	25,663
Provisions		**17,402**	19,230
Tax payable		**134**	–
		71,297	64,023
Net current liabilities		**(22,492)**	(26,162)
Net liabilities		**(21,943)**	(25,562)
Capital and reserves attributable to the equity holders of the Company			
Share capital	*11*	**19,078**	19,078
Reserves		**(52,409)**	(50,409)
		(33,331)	(31,331)
Minority interests		**11,388**	5,769
Total equity		**(21,943)**	(25,562)

NOTES:

1. BASIS OF PREPARATION

(a) Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in the notes to the financial statements.

(i) Standards and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards/interpretations to existing standards have been published that are mandatory for the Group's accounting periods with effect from the next financial year that the Group has not early adopted:

- HKFRS 7, Financial instruments: Disclosures, and the complementary Amendment to HKAS 1, Presentation of Financial Statements – Capital Disclosures, are effective for annual periods beginning on or after 1 January 2007. HKFRS 7 introduces new disclosures relating to financial instruments. This standard does not have any impact on the classification and valuation of the Group's financial instruments.

- HK(IFRIC)-Int 8, Scope of HKFRS 2 (effective for annual periods beginning on or after 1 May 2006). HK(IFRIC)-Int 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of HKFRS 2. The Group will apply HK(IFRIC)-Int 8 from 1 January 2007, but it is not expected to have any impact on the Group's consolidated financial statements; and

- HK(IFRIC)-Int 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). HK(IFRIC)-Int 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply HK(IFRIC)-Int 10 from 1 January 2007, but it is not expected to have any impact on the Group's consolidated financial statements.

(ii) Interpretation to existing standards that are not yet effective and not relevant for the Group's operations

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods with effect from the next financial year but are not relevant for the Group's operations:

- HK(IFRIC)-Int 7, Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after 1 March 2006). HK(IFRIC)-Int 7 provides guidance on how to apply requirements of HKAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period. As none of the group entities have a currency of a hyperinflationary economy as its functional currency, HK(IFRIC)-Int 7 is not relevant to the Group's operations; and

- HK(IFRIC)-Int 9, Reassessment of embedded derivatives (effective for annual periods beginning on or after 1 June 2006). HK(IFRIC)-Int 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment if required. As none of the group entities have changed the terms of their contracts, HK(IFRIC)-Int 9 is not relevant to the Group's operations.

(iii) Standards, amendments and interpretations effective in 2006 but not relevant for the Group's operations

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations or do not have a significant impact on the Group's consolidated financial statements:

HKAS 21 Amendment	Net Investment in a Foreign Operation;
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
HKAS 39 Amendment	The Fair Value Option;
HKAS 39 and HKFRS 4 Amendment	Financial Guarantee Contracts;
HKFRS 6	Exploration for and Evaluation of Mineral Resources;
HKFRS 1 Amendment	First-time Adoption of International Financial Reporting Standards and HKFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;
HKFRS-Int 4	Determining whether an Arrangement contains a Lease;
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds;
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.

(b) Material uncertainties in respect of going concern

The Group sustained consolidated loss attributable to equity holders of the Company of HK$2,421,000 (2005: profit of HK$12,278,000) for the year ended 31 December 2006. At 31 December 2006, the Group had consolidated net current liabilities of HK$22,492,000 (2005: HK$26,162,000) and provisions of HK$17,402,000 (2005: HK$19,230,000).

Notwithstanding going concerns and liquidity concerns arising from the consolidated net current liabilities as at 31 December 2006, the financial statements have been prepared on the assumption that the Group will continue to operate as a going concern in the foreseeable future. In the opinion of directors, the liquidity of the Group can be maintained in the coming year, after taking into account several measures adopted and to be adopted subsequent to the balance sheet date as further detailed below:

(i) Hong Jin Holdings Limited ("Hong Jin"), the parent and ultimate holding company of the Company in which Mr. Wu Kwai Yung held 70% beneficial interest, had provided an irrevocable guarantee in which the Company and Hong Jin agreed to extend the maturity date of convertible note with principal amount of HK$30,000,000 to not earlier than 7 December 2008, subject to the approval from the Stock Exchange and independent shareholders of the Company;

(ii) Hong Jin has committed to provide financial support to enable the Group to meet in full its liabilities as they fall due, both present and future;

(iii) the directors are currently looking into two cases in respect of the provisions and seeking legal advice as to the possible outcome and appropriate course of action to be taken in relation to these two cases with the provision of HK$14,850,000 already provided as at the balance sheet date; and

(iv) the directors are planning to adopt various cost control measures to reduce various general and administrative and other operating expenses.

In the opinion of the directors, in light of the measures adopted, the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements. In addition, Tianjin Jinshun Pharmaceutical Co., Ltd. ("Tianjin Jinshun"), the 60% subsidiary of the Group, is engaged in trading of pharmaceutical products and the business of which formed the major business activities for the Group as a whole. The directors believe that the future funding generated from Tianjin Jinshun will sufficiently improve the financial and cash flow position and maintain the Group's ability to continue as a going concern. Accordingly, the directors are of the view that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Should the Group be unable to achieve the above and fail to continue in business as a going concern, adjustments would have to be made to restate the values of the assets to their immediate recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these adjustments have not been reflected in the consolidated financial statements.

2. TURNOVER AND OTHER REVENUE

Turnover and other revenue recognised during the year are as follows:

	2006	2005
	HK$'000	*HK$'000*
Turnover		
Sales and distribution of pharmaceutical products	**143,168**	10,232
Laboratory testing service income	**1,215**	975
	144,383	11,207
Other revenue		
Reversal of provisions, net	**1,828**	–
Gain on adjustment of the amortised cost of convertible note	**3,375**	–
Gain arising from changes in fair value of financial assets at fair value through profit or loss	**68**	–
Bank interest income	**219**	99
Guarantee income earned	**2,775**	343
Subsidy income	**863**	–
Other income	**190**	117
	9,318	559
Total	**153,701**	11,766

Turnover represents the net invoiced value of goods sold, after allowances for trade discounts and returns.

3. SEGMENT INFORMATION

(a) Business segments

No separate analysis of financial information by business segments is presented as the Group's revenue, results, assets and liabilities were all derived from its principal line of business of pharmaceutical and healthcare business.

(b) Geographical segments

The Group's operation are located in Hong Kong and Mainland China. The analysis of the Group's sales by geographical segment is as follows:

	Hong Kong		**Mainland China**		**Consolidated**	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:						
Sales to external customers	**1,215**	975	**143,168**	10,232	**144,383**	11,207
Segment results	**(3,827)**	11,606	**1,406**	672	**(2,421)**	12,278
Other segment information:						
Segment assets	**1,037**	12,790	**48,317**	25,671	**49,354**	38,461
Capital expenditure	**55**	81	**190**	260	**245**	341

4. FINANCE COSTS

	2006 *HK$'000*	2005 *HK$'000*
Interest expenses on other borrowing wholly repayable within five years	**200**	266
Imputed interest on convertible note	**4,256**	–
Other finance charges	**38**	–
	4,494	266

5. (LOSS)/PROFIT BEFORE INCOME TAX

(Loss)/profit before income tax is stated after charging/(crediting) the following:

	2006 *HK$'000*	2005 *HK$'000* (Restated)
Staff costs, excluding directors' remuneration:		
Salaries, wages and allowances	**2,851**	2,505
Contributions to retirement benefit schemes	**79**	119
	2,930	2,624
Auditors' remuneration		
– Audit fee	**403**	550
– Non-audit fee	**668**	–
	1,071	550
Depreciation	**305**	384
Bad debt recovery	**–**	(16)
Guarantee payment paid	**366**	36
(Gain)/loss arising from changes in fair value of financial assets at fair value through profit or loss	**(68)**	65
Minimum lease payments under an operating lease in respect of land and buildings	**1,280**	797
Impairment on receivables	**22**	–
Realised loss on disposal of financial assets at fair value through profit or loss	**–**	26
Bank interest income	**(219)**	(99)
Exchange loss/(gain), net	**134**	(19)
(Decrease)/increase in provisions	**(1,828)**	106
Gain on adjustment of the amortised cost of convertible note	**(3,375)**	–
Guarantee income earned	**(2,775)**	(343)

6. INCOME TAX EXPENSES

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the current and prior years. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Taxation in the consolidated income statement represents:

	2006 *HK$'000*	2005 *HK$'000*
Hong Kong profits tax	**–**	–
PRC income tax		
– Current year	**864**	–
– Under-provision in prior year	**105**	–
Income tax expenses	**969**	–

Below is a numerical reconciliation between income tax expenses in the consolidated income statement and aggregate tax expense at the domestic rates applicable to profits in respective territories concerned:

Group – 2006

	2006	2005
	HK$'000	*HK$'000*
(Loss)/profit before income tax	**(515)**	12,278
(Tax credit)/tax charge at the applicable tax rate of 17.5% (2005: 17.5%)	**(90)**	2,149
Effect of different tax rate	**513**	–
Under-provision in prior year	**105**	–
Income not subject to tax	**(1,638)**	(3,861)
Expenses not deductible for tax	**1,182**	1,617
Unrecognised temporary differences	**5**	10
Tax losses not recognised	**892**	85
Tax charge	**969**	–

The Group did not have any significant unprovided deferred income tax in respect of the current and prior years.

7. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$5,994,000 (2005: HK$1,361,000).

8. (LOSS)/EARNINGS PER SHARE

(a) Basic

The calculation of basic (loss)/earnings per share for the year ended 31 December 2006 was based on the consolidated loss for the year attributable to equity holders of the Company of HK$2,421,000 (2005: profit of HK$12,278,000) and the weighted average of 953,906,963 shares (2005: 953,906,963 shares) in issue during the year.

(b) Diluted

The calculation of diluted earnings per share for the year ended 31 December 2006 was based on the consolidated profit for the year attributable to equity holders of the Company of HK$1,835,000 (2005: HK$12,278,000) and the weighted average number of shares used in the calculation was 1,130,377,551 shares (2005: 999,837,664 shares) after adjusting for the effects of all dilutive potential ordinary shares under the Company's convertible note.

(i) Profit attributable to equity holders of the Company (diluted)

	2006	2005
	HK$'000	*HK$'000*
(Loss)/profit attributable to equity holders	**(2,421)**	12,278
Imputed interest on convertible note	**4,256**	–
Profit used for determining diluted earnings per share	**1,835**	12,278

(ii) Weighted average number of ordinary share (diluted)

	2006	2005
	Number of shares	*Number of shares*
Weighted average number of ordinary shares used in calculating basic earnings per share	**953,906,963**	953,906,963
Deemed issue of ordinary shares – convertible note	**176,470,588**	45,930,701
Weighted average number of ordinary shares used in calculating diluted earnings per share	**1,130,377,551**	999,837,664

9. TRADE AND OTHER RECEIVABLES

	2006	2005
	HK$'000	*HK$'000*
Trade receivables *(note (a))*	**30,212**	10,808
Less: Provision for impairments	**(40)**	(18)
	30,172	10,790
Other receivables, deposits and prepayments	**350**	3,307
Due from minority shareholders of a subsidiary *(note (b))*	**–**	1,416
	30,522	15,513

Notes:

(a) The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period ranging from 30 to 180 days (2005: 30 to 180 days). The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

The ageing analysis of the Group's trade receivables was as follows:

	2006	2005
	HK$'000	*HK$'000* (Restated)
Within 90 days	**20,337**	10,782
91 days to 180 days	**8,023**	1
181 days to 365 days	**1,819**	1
Over 365 days	**33**	24
	30,212	10,808

Included in trade receivables is HK$81,000 (2005: HK$4,000) due from one (2005: two) minority shareholder(s) of a subsidiary.

Included in trade and other receivables in the balance sheet are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	2006	2005
	'000	*'000*
Renminbi	**30,381**	14,768

(b) According to the joint venture agreement ("JV Agreement") dated 28 April 2005 (as supplemented) entered into among the Group and 天津市醫藥公司 (Tianjin Shi Yi Yao Company) ("Party B"), 天津國津投資有限公司 (Tianjin Guo Jin Investment Company Limited) ("Party C") and 天津市河西區北京大藥房 (Tianjin Shi He Xi Qu Bei Fang Dai Yao Fang) ("Party D"), profit generated by Tianjin Jinshun will be shared among the parties based on their respective percentage interest in Tianjin Jinshun. As at the balance sheet date, the Group, Party B, Party C and Party D owned 60%, 5%, 17.5% and 17.5% of the interest of Tianjin Jinshun respectively.

It is also agreed between the parties that profit after tax of Tianjin Jinshun for each of the first three years starting from the date of establishment of Tianjin Jinshun ("Guarantee Period") will not be less than RMB7,000,000 and the Group will be entitled to RMB4,200,000 in each year (or on pro rata basis, if less than one year).

Should the profit after tax of Tianjin Jinshun attributable to the Group fall short of RMB4,200,000 in any of the year during the Guarantee Period, Party C and Party D undertake to pay the Group jointly such shortfall in cash before 30 April in the following year.

It is provided in the JV Agreement that profit attributable to Party B's 5% equity interest in Tianjin Jinshun for each of the years ended 31 December 2006 and 2005 should not be less than RMB700,000. In case of any shortfall, Party B will be compensated by the Group as to 63.2% of such shortfall and jointly by Party C and Party D in equal share as to the remaining 36.8% of such shortfall.

The Group recognised a guarantee income receivable from Party C and Party D in the amount of HK$2,775,000 (2005: HK$343,000) and a payment of guarantee income to Party B in the amount of HK$366,000 (2005: HK$36,000) pursuant to the JV Agreement.

The balances with the minority shareholders of a subsidiary represent the temporary cash advance net of the expenses paid on behalf of the Group which is interest-free, unsecured and repayable on demand.

(c) The carrying amounts of trade receivables, other receivables, deposits and prepayments approximated their fair value.

10. TRADE AND OTHER PAYABLES

	2006	2005
	HK$'000	*HK$'000*
		(Restated)
Trade payables *(note (a))*	**15,386**	11,680
Other payables and accruals	**4,589**	6,082
Due to directors *(note (b))*	**847**	88
Due to minority shareholders of a subsidiary *(note 9(b))*	**4,951**	36
	25,773	17,886

Notes:

(a) The ageing analysis of the Group's trade payables was as follows:

	2006	2005
	HK$'000	*HK$'000*
Within 90 days	**13,532**	11,491
91 days to 180 days	**1,437**	24
181 days to 365 days	**302**	63
Over 365 days	**115**	102
	15,386	11,680

Included in trade payables is HK$615,000 (2005: HK$2,118,000) due to one (2005: two) minority shareholder(s) of a subsidiary.

Included in trade and other payables in the balance sheet are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	2006	2005
	'000	*'000*
Renminbi	**15,608**	12,316

(b) Details of amounts due to directors are as follows:

	2006	2005
	HK$'000	*HK$'000*
Name of director		
Mr. Wu Kwai Yung	**100**	43
Mr. Zhao Tie Liu	**111**	4
Dr. Wan Kwong Kee	**294**	41
Mr. Leung Hon Man	**50**	–
Mr. Zhou Haijun	**82**	–
Mr. Ng Wai Hung	**130**	–
Mr. Xu Zhi	**80**	–
	847	88

The amounts due are unsecured, interest free and repayable on demand.

11. SHARE CAPITAL

	2006	2005
	HK$'000	*HK$'000*
Authorised:		
100,000,000,000 ordinary shares of HK$0.02 each	**2,000,000**	2,000,000
Issued and fully paid:		
953,906,963 (2005: 953,906,963) ordinary shares of HK$0.02 each	**19,078**	19,078

There was no movement in the share capital of the Company for each of the years ended 31 December 2006 and 2005.

AUDITORS' OPINION EXTRACTED FROM AUDITORS' REPORT

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 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 Hong Kong Companies Ordinance.

Without qualifying our opinion, we draw attention to note 1(b) which indicates that the Group incurred consolidated loss of HK$2,421,000 during the year ended 31 December 2006 and, as of that date, the Group reported consolidated net current liabilities of HK$22,492,000. These conditions, along with other matters as set forth in note 1(b), indicate the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern.

MANAGEMENT DISCUSSION & ANALYSIS

Overview

As the business activities of the Group in the PRC increased rapidly in 2006, the Group's financial position and level of operations improved and its total assets base expanded substantially accordingly.

Financial Results

The 60% owned subsidiary of the Company in Tianjin, the PRC, Tianjin Jinshun Pharmaceutical Co., Ltd. ("Tianjin Jinshun") operated for a full calendar year and our laboratory testing service business also recorded growth in 2006. As a result, consolidated turnover recorded by the Group for the year 31 December 2006 was approximately HK$144,383,000 and increased almost 12 times from the previous year.

During the year, 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") to 7 December 2007. Accordingly, the Group recorded a gain on adjustment of amortised cost of the Note of HK$3,375,000. The Group also recognised a guarantee income of HK$2,775,000 receivable from two minority shareholders of Tianjin Jinshun and reversed provisions for legal claims and employee benefits of approximately HK$1,828,000.

Administrative expenses dropped slightly by 1% to HK$10,774,000 (2005: HK$10,839,000) because of the various cost control measures adopted by the Company and the emoluments waived by certain directors and managements.

Finance cost for the year ended 31 December 2006 was HK$4,494,000 (2005: HK$266,000) representing an increase of 1,589%. The increase was mainly attributable to the imputed interest incurred on the Note which had no cash outflow from the Group.

Consolidated loss reported for the year was HK$1,484,000 as compared to a profit of HK$12,278,000 in 2005 which included the 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. Excluding these non-recurrent gains, the Group had actually reduced its loss in 2006.

Loss per share for the year was HK0.25 cents (2005: earnings per share of HK1.29 cents) because of the loss recorded for the year.

Review of Operations

The PRC

The Group's pharmaceutical business was affected by the control measures undertaken by the Chinese government on the pharmaceutical market and health institutions in early 2006. Governmental approvals for new pharmaceutical products also slowed down and the Group had to postpone its plan to introduce a number of new products into the market. Despite these circumstances, revenue contribution from the PRC segment enlarged substantially in 2006. Approximately 99.2% (2005: 91.3%) of the turnover of the Group was generated by the Group's pharmaceutical distribution business in the PRC.

Hong Kong
During the year, the pharmaceutical and health care unit of the Group - GenePro Medical Biotechnology Limited ("GenePro") increased its market share in paternity/forensic testing sector and activities related to the more expensive and yet more complicated cases, it reported a growth of 24.6% in turnover and accounted for approximately 0.8% (2005: 8.7%) of that of the Group in 2006. Since GenePro had also developed its own technology which utilised raw material from suppliers rather than expensive testing kits from external sources, its gross profit margin improved during the year.

Save for the operation of Tianjin Jinshun for a whole calendar year in 2006, there were no significant changes in respect of other activities of the Group as compared to 2005 and no material acquisitions and disposals of subsidiaries and associates during 2006.

Liquidity and Financial Resources
As at 31 December 2006, the Group had total assets of approximately HK$49,354,000 (2005: HK$38,461,000), among which, HK$48,805,000 (2005: HK$37,861,000) were current assets comprised mainly of trade and other receivables of HK$30,522,000, bank balance and cash of HK$13,230,000.

Total liabilities of the Group amounted to approximately HK$71,297,000 (2005: HK$64,023,000) and all were classified as current liabilities at the year end. Among the total liabilities, approximately HK$26,544,000 was the carrying amount of the Note. The Note was issued to Hong Jin and will be mandatory and automatically converted into ordinary shares of the Company upon, inter alia, the trading of the shares of the Company resumes. During the year, the maturity date of the Note has been extended by Hong Jin to 7 December 2007. The other current liabilities included mainly other borrowings of HK$1,444,000, trade and other payables of HK$25,773,000 and the provisions of HK$17,402,000 made in previous years for employee benefits and legal claims etc.

The financial position of the Group further improved during the year ended 31 December 2006. The gearing ratio (total liabilities as a percentage of total assets) decreased to 144.5% at the end of 2006 (As at 31 December 2005: 166.5%). Current ratio improved from 59.1% to 68.5% as at 31 December 2006. Should the Note of HK$30,000,000 mentioned above be converted, the Group would probably improve from net liabilities position to net assets position.

Most of the sales, sales-related costs and expenses, 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 year, the Group had not been exposed to any material exchange rate fluctuation.

Charges on Assets
As at 31 December 2006, certain assets of the Group with aggregate carrying value of approximately HK$255,000 were pledged to secure the Group's borrowing as compared to HK$191,000 as at 31 December 2005.

Employee Remuneration Policy and Number of Employees
As at 31 December 2006, the Group employed 65 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 will be reviewed annually by the Remuneration Committee.

Contingent Liabilities

(a) The Group disposed of three subsidiaries to an independent third party (the "Acquirer") in 2000. The Company has provided corporate guarantees (the "Corporate Guarantees") to the bankers of these former subsidiaries to secure certain bank facilities granted to them. Subject to the release of the Corporate Guarantees by the relevant banks, the Company is obliged to continue to provide the Corporate Guarantees after the completion of such disposal. In relation to the settlement agreement dated 31 December 2003 entered by the Acquirer and BOC ("Settlement Agreement"), the Company is liable to a reinstatement of all liabilities and obligations under the Corporate Guarantees and the outstanding indebtedness owed by the Company to BOC when the settlement under the Settlement Agreement is revoked. Subsequently, the Group and BOC agreed pursuant to the BOC Agreements, in the event of the revocation of the Settlement Agreement, the Company shall pay to BOC an additional sum of approximately HK$223,000.

(b) Pursuant to the two settlement deeds with creditor banks and the Acquirer entered into in 2003 for the discharge and release of all the liabilities and obligations of the Company under guarantees given by the Company in respect of banking facilities extended to the subsidiaries of the Acquirer, the releases are subject to reinstatement in the event that the settlements under these deeds are revoked. The total amount of liabilities released by the creditor banks amounted to approximately HK$37,136,000. During the year ended 31 December 2005, the guarantee given to a creditor bank was released.

(c) Pursuant to the BOC Agreements, the Company is liable to a reinstatement of all liabilities and obligations under the guarantees and outstanding liabilities released and discharged when the BOC Agreements are revoked. The total liabilities released under the BOC Agreements amounted to approximately HK$215,112,000 and the settlement sum already paid for the settlement is approximately HK$35,412,000.

During the year, the Company has successfully come to agreement with relevant bankers and all contingent liabilities regarding the above have now been released.

Outlook

Our pharmaceutical business in Tianjin delivered substantial improvement in the Group's results in 2006. Looking forward to 2007, the Company will continue to focus on its core competencies in the pharmaceutical business in the existing area. It has always been the view that the Group, at the right time, would actually want to extend to the nearby areas to explore new market and launch its own pharmaceutical products in these areas. The Directors are considering restructuring the Group's business strategies in DNA testing business and establishing a similar business base in East China in Mid 2007. The management believes that, with the persistent business growth and the new business developments, the Group could maintain strong financial results in the coming years.

To support its business developments, the Group will continue to negotiate with the controlling shareholders and the regulators regarding a proposed rights issue on fully underwritten basis and to solicit investors in making investments in or providing funding to the Group.

Trading of the shares of the Company remains suspended as at the date hereof. The Stock Exchange had rejected the resumption proposal submitted by the Company. The Company is currently seeking advice from its legal advisers and financial advisers on what possible actions available to the Company. Should there be any material developments and information in respect of the application for resumption of trading of its shares, the Company will make announcements to inform the shareholders in due course.

DIVIDENDS

No interim dividend was paid to the shareholders of the Company during the year.

The Board of the Company does not recommend the payment of any final dividend for the year ended 31 December 2006 (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 year ended 31 December 2006.

CORPORATE GOVERNANCE

The Company and its Directors are committed to maintaining high standards of corporate governance practices. To comply with the code provisions of the Code on Corporate Governance Practices (the "CG Code") set out in Appendix 14 of the Listing Rules and to enhance the corporate governance practices of the Group, two committees, namely Remuneration Committee and Audit Committee were established under the Board within the structure of corporate governance.

During the year, the Company has complied with most of the provisions of the CG Code with deviations from code provision A4.1 of the CG Code that two of 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 than exactly those in the CG Code.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the audited financial statements for the year ended 31 December 2006.

SCOPE OF WORK OF CCIF CPA LIMITED

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2006 have been agreed by the Group's auditors, CCIF CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2006. The work performed by CCIF CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by CCIF CPA Limited on the preliminary announcement.

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 of 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 year ended 31 December 2006.

DIRECTORS

As at the date of this announcement, the Board comprises six Directors: Mr. Wu Kwai Yung, Mr. Zhao Tie Liu and Mr. Leung Hon Man are the Executive Directors; Mr. Zhou Haijun, Mr. Ng Wai Hung and Mr. Xu Zhi are the Independent Non-Executive Directors.

PUBLICATION OF FINANCIAL INFORMATION

The annual report of the Company for the year ended 31 December 2006 will be despatched to the shareholders of the Company and published on the website of the Stock Exchange (www.hkex.com.hk) in due course.

By order of the Board
Sanyuan Group Limited
Wu Kwai Yung
Chairman

Hong Kong, 25 April 2007

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