SANYUAN GROUP LIMITED
三元集團有限公司
(Stock Code: 0140)

Interim Report 2006

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors:
Mr. Wu Kwai Yung *(Chairman)*
Mr. Zhao Tie Liu *(Managing Director)*
Dr. Wan Kwong Kee

Independent Non-executive Directors:
Mr. Zhou Haijun
Mr. Ng Wai Hung
Mr. Xu Zhi

COMPANY SECRETARY

Mr. Leung Hon Man

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Nanyang Commercial Bank

SOLICITORS

Lovells
P. C. Woo & Co.

AUDITORS

RSM Nelson Wheeler
Certified Public Accountants
7th Floor, Allied Kajima Building
138 Gloucester Road
Hong Kong

REGISTERED OFFICE

Suite 1429, 14/F
Ocean Centre
5 Canton Road
Tsimshatsui, Kowloon
Hong Kong

REGISTRARS AND TRANSFER OFFICE

Secretaries Limited
26/F, Tesbury Centre
28 Queen's Road East
Hong Kong

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 results 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 (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 amount 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 shares.

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.

DIRECTORS' INTERESTS IN EQUITY SECURITIES

As at 30 June 2006, the interests of the directors and the Company's chief executives in the equity or debt securities of the Company or any associated corporation (within the meaning of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to section 347 of the SFO (including interests which they were deemed or taken to have under sections 344 and 345 of the SFO) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, or which were recorded in the register required to be kept under section 352 of the SFO, were as follows:

Name of director/ Chief executive	Number of ordinary Shares held	Nature of interest	Percentage of issued share capital
Wu Kwai Yung	643,835,616	Corporate *(Note 1)*	67.5%
	176,470,588	Corporate *(Note 2)*	18.5%
Leung Hon Man	54	Nominee *(Note 3)*	0.0%

Notes:

(1) The corporate interest is held by Hong Jin Holdings Limited, the controlling shareholder of the Company, which is owned as to 70% and 30% by Mr. Wu Kwai Yung and Mr. Wu Lui Yip, the son of Mr. Wu Kwai Yung, respectively.

(2) 176,470,588 new shares will be issued to Hong Jin Holdings Limited upon conversion of the HK$30 million zero-coupon convertible note. By virtue of the SFO, Mr. Wu is deemed to have corporate interests in the 176,470,588 shares.

(3) Mr. Leung was authorised to hold the fractions of the consolidated shares arising from the share consolidation effective on 18 October 2002.

Save as disclosed above, as at 30 June 2006, none of the directors or their associates had any personal, family, corporate or other interest in the equity securities or debentures of, or has a short position in shares in the relevant share capital of the Company or any of its associated corporations (as defined in the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to section 347 of the SFO (including the interests which they were deemed or taken to have under sections 344 and 345 of the SFO) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to herein.

EMPLOYEE SHARE OPTIONS

A new Company's share option scheme (the "Scheme") was approved by shareholders of the Company on 29 June 2004. The Scheme is yet to take effect and is subject to the Listing Committee of the Stock Exchange granting the approval of listing of and permission to deal in the shares of the Company which may be issued pursuant to the exercise of the options under the Scheme up to 10 per cent. of the total issued share capital of the Company as at the date of adoption of the Scheme. The following is a summary of the major terms of the Scheme:

(i) The purpose of the Scheme is to provide the eligible participants with the opportunity to acquire proprietary interests in the Company and to encourage the eligible participants to work towards enhancing the value of the Company and its shares of the Company for the benefit of the Company and the shareholders of the Company as a whole.

(ii) Eligible participants of the Scheme include employees, directors (including executive, non-executive and independent non-executive directors), shareholders, advisors and consultants of the Group.

(iii) The Scheme, unless otherwise cancelled or amended, shall be valid and effective for a period of ten years commencing on the adoption date of the Scheme.

(iv) The overall limit on the number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme must not exceed 30 per cent. of the shares of the Company in issue from time to time.

(v) The maximum number of shares of the Company issued and to be issued upon exercise of the options granted to any one eligible participant in any 12-month period must not exceed 1 per cent. of the shares of the Company in issue from time to time.

(vi) The subscription price shall be determined by the Board of the Company in its absolute discretion and shall be no less than the highest of:

  (a) the closing price of the share of the Company as stated in the daily quotations sheet issued by the Stock Exchange on the date of the grant;

  (b) the average closing price of the share of the Company as stated in the daily quotations sheets issued by the Stock Exchange for the 5 trading days immediately preceding the date of grant; or

  (c) the nominal value of the share of the Company on the date of grant.

(vii) The options must be taken up within 30 days from the date on which the letter containing the offer to the eligible participant to take up an option is delivered to the eligible participant upon payment of HK$1 and are exercisable over a period to be determined and notified by the Board to each grantee.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 30 June 2006, the following interests (whether direct or indirect) of 5% or more of shares comprised in the share capital of the Company were recorded in the register of interests in shares and short position required to be kept by the Company pursuant to section 336 of the SFO:

Name of shareholder	Number of shares held	Approximate percentage of existing issued share capital of the Company
Hong Jin Holdings Limited *(Note 1)*	643,835,616	67.5%
	176,470,588 *(Note 2)*	18.5%

Note:

(1) Hong Jin Holdings Limited, the controlling shareholder of the Company, which is owned as to 70% and 30% by Mr. Wu Kwai Yung and Mr. Wu Lui Yip, the son of Mr. Wu Kwai Yung, respectively.

(2) 176,470,588 new shares will be issued to Hong Jin Holdings Limited upon conversion of the HK$30 million zero-coupon convertible note. By virtue of SFO, Hong Jin Holdings Limited is deemed to have interests in the 176,470,588 shares.

According to the register of interests in shares and short positions kept by the Company under section 336 of the SFO and so far as was known to the directors, other than the interests disclosed above, there was no other person (other than a director or chief executive of the Company) who, as at 30 June 2006, was directly or indirectly, beneficially interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of the Company or in any options in respect of such capital.

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") 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.

By Order of the Board
Wu Kwai Yung
Chairman

Hong Kong SAR, 27 September 2006

RSM! Nelson Wheeler
羅 申 美 會 計 師 行
Certified Public Accountants

TO THE BOARD OF DIRECTORS OF SANYUAN GROUP LIMITED
(Incorporated in Hong Kong with limited liability)

INTRODUCTION

We have been instructed by the Company to review the interim financial report set out on pages 12 to 22.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

REVIEW WORK PERFORMED

We conducted our review in accordance with the Statement of Auditing Standards 700 ("SAS 700") "Engagements to Review Interim Financial Reports" issued by the HKICPA. A review consists principally of making enquiries of Group management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial 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.

Without modifying our review conclusion, we draw to your attention that the comparative condensed consolidated income statement, condensed consolidated cash flow statement and condensed consolidated statement of changes in equity for the six months ended 30 June 2005 disclosed in the interim financial report have not been reviewed in accordance with SAS 700.

RSM Nelson Wheeler
Certified Public Accountants
Hong Kong

27 September 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		**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	*3*	**451**	17,016
Taxation	*4*	**(566)**	–
(Loss)/profit for the period		**(115)**	17,016
Attributable to:			
Equity holders of the Company		**(575)**	17,016
Minority interests		**460**	–
		(115)	17,016
(Loss)/earnings per share	*5*		
– Basic		**(0.06 HK cents)**	1.78 HK cents
– Diluted		**N/A**	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2006

	Note	At 30 June 2006 HK$'000 (Unaudited)	At 31 December 2005 HK$'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**630**	600
Current assets			
Inventories		**4,095**	4,775
Financial assets at fair value through profit or loss		**272**	204
Trade and other receivables	*6*	**42,995**	15,513
Bank balances and cash		**13,465**	17,369
		60,827	37,861
Current liabilities			
Borrowings		**1,339**	1,244
Trade and other payables	*7*	**37,432**	18,266
Provision for taxation		**162**	–
Provisions		**18,850**	18,850
Convertible note	*8*	**–**	25,663
		57,783	64,023
Net current assets/(liabilities)		**3,044**	(26,162)
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,674**	(25,562)
Long term borrowing			
Convertible note	*8*	**24,847**	–
		(21,173)	(25,562)
Capital and reserves			
Share capital		**19,078**	19,078
Reserves		**61,592**	61,513
Accumulated losses		**(112,497)**	(111,922)
Total equity attributable to equity holders of the Company		**(31,827)**	(31,331)
Minority interests		**10,654**	5,769
		(21,173)	(25,562)

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2006

	Six months ended 30 June 2006 HK$'000 (Unaudited)	Six months ended 30 June 2005 HK$'000 (Unaudited)
Net cash used in operating activities	**(8,304)**	(3,759)
Net cash used in investing activities	**(196)**	(7)
Net cash from financing activities	**4,520**	3,786
Net (decrease)/increase in cash and cash equivalents	**(3,980)**	20
Cash and cash equivalents at beginning of period	**17,369**	720
Effect of foreign exchange rate changes	**76**	–
Cash and cash equivalents at end of period	**13,465**	740
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**13,465**	740

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2006

	Attributable to equity holders of the Company									
	Share capital	**Share premium**	**Capital reserve**	**General reserve**	**Special capital reserve**	**Translation reserve**	**Accumu-lated losses**	**Total**	**Minority interests**	**Total equity**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2005	19,078	34,123	–	200	22,853	–	(124,200)	(47,946)	–	(47,946)
Profit for the period	–	–	–	–	–	–	17,016	17,016	–	17,016
At 30 June 2005	19,078	34,123	–	200	22,853	–	(107,184)	(30,930)	–	(30,930)
At 1 January 2006	19,078	34,123	4,337	200	22,853	–	(111,922)	(31,331)	5,769	(25,562)
Translation difference	–	–	–	–	–	79	–	79	–	79
(Loss)/Profit for the period	–	–	–	–	–	–	(575)	(575)	460	(115)
Capital injection by minority shareholders in a subsidiary	–	–	–	–	–	–	–	–	4,425	4,425
At 30 June 2006	19,078	34,123	4,337	200	22,853	79	(112,497)	(31,827)	10,654	(21,173)

NOTES TO THE INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2006

1. 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 Hong Kong Institute of Certified Public Accountants (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, 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES

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

3. 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) Turnover		
Sale and distribution of pharmaceutical products	**73,059**	–
Laboratory testing service income	**610**	465
	73,669	465
(b) Other income		
Interest income	**135**	–
Guarantee income earned	**1,333**	–
Total other revenue	**1,468**	–
Gain on adjustment of the amortised cost of the convertible note	**3,375**	–
Others	**235**	63
	5,078	63
(c) Finance cost		
Interest on bank overdrafts and borrowings	**–**	(90)
Imputed interest on convertible note	**(2,559)**	–
Interest on other borrowings	**(94)**	(96)
	(2,653)	(186)

4. 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	**566**	–

(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.

5. (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.

6. TRADE AND OTHER RECEIVABLES

	Note	**At 30 June 2006 HK$'000 (unaudited)**	At 31 December 2005 HK$'000 (audited)
Trade receivables	*(a)*	**35,399**	10,790
Other receivables			
Deposits, prepayment and other debtors		**7,596**	3,307
Due from minority shareholders of a subsidiary		**–**	1,416
		7,596	4,723
		42,995	15,513

Note:

(a) The Group provides credit term to customers in accordance with the Group's established credit policies of 30 to 180 days *(At 31 December 2005: 30 to 180 days)*. The ageing analysis of trade receivables is as follows:

	At 30 June 2006 HK$'000 (unaudited)	At 31 December 2005 HK$'000 (audited)
Within 1 month	**11,772**	10,751
1 – 2 months	**8,735**	26
2 – 3 months	**5,269**	5
3 – 6 months	**9,268**	1
6 – 12 months	**349**	1
Over 1 year	**6**	6
	35,399	10,790

7. TRADE AND OTHER PAYABLES

	Note	At 30 June 2006 HK$'000 (unaudited)	At 31 December 2005 HK$'000 (audited)
Trade payables	*(a)*	**26,667**	11,680
Other payables			
Accrued charges and other creditors		**2,473**	4,916
Due to directors		**43**	88
Due to a former related company		**1,546**	1,546
Due to minority shareholders of a subsidiary		**6,703**	36
		10,765	6,586
		37,432	18,266

Note:

(a) Trade payables

The ageing analysis of trade payables is as follows:

	At 30 June 2006 HK$'000 (unaudited)	At 31 December 2005 HK$'000 (audited)
Within 1 month	**9,671**	11,486
1 – 2 months	**6,746**	4
2 – 3 months	**4,805**	1
3 – 6 months	**5,225**	24
6 – 12 months	**106**	63
Over 1 year	**114**	102
	26,667	11,680

8. CONVERTIBLE NOTE

On 28 September 2005, the Company issued a zero-coupon convertible note in the principal amount of HK$30,000,000 (the "Note") to Hong Jin Holdings Limited ("Hong Jin") in which Mr. Wu Kwai Yung, a director of the Company held 70% interest of Hong Jin. The Note is due on 7 December 2006 and the maturity date may be extended for further 12 months by Hong Jin at its sole discretion. On 7 April 2006 Hong Jin exercised its discretion to extend the maturity date of the Note to 7 December 2007. The Note will be mandatory and automatically converted either on (i) the day on which the trading of the shares of the Company on the Stock Exchange resumes; or (ii) the day on which the Stock Exchange grants the listing of and permission to deal in the Conversion Shares (subject to conditions that neither Hong Jin nor the Company may reasonably object); or (iii) 1 December 2005, whichever comes last. If the Note is to be converted, the conversion price will be HK$0.17 per share and 176,470,588 new shares will be allotted by the Company upon full conversion.

As at 30 June 2006, the Note had not been converted.

The directors estimated the fair value of the Note at 30 June 2006 to be approximately HK$24,537,000 *(At 31 December 2005: HK$25,663,000)*. This fair value has been calculated by discounting the future cash flows at the market rate. The equity element of the Note amounted to HK$4,337,000 *(At 31 December 2005: HK$4,337,000)* was recognised in the capital reserve.

9. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions/information disclosed elsewhere in this interim financial report, during the period, the Group had the following transactions with ReliaLab Medical Laboratory & X-Ray Centre Limited.

	Six months ended 30 June 2006 HK$'000 (unaudited)	Six months ended 30 June 2005 HK$'000 (unaudited)
Rental expenses recharged *(Note (i))*	–	(19)
Salaries received for shared staff *(Note (i))*	–	(14)
Salaries paid for shared staff *(Note (i))*	–	2
Management fee recharged *(Note (i))*	–	(6)
Electricity fee recharged *(Note (i))*	–	(1)
Laboratory testing service income *(Note (ii))*	–	(4)

Notes:

(i) These expenses were recharged/shared with reference to the actual expense incurred.

(ii) These transactions were carried out at market prices.

(iii) The above transactions did not fall under the definition "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules.

(b) On 15 March 2004, a wholly-owned subsidiary of the Company as tenant entered into a tenancy agreement on normal commercial terms with Dr. Wan Kwong Kee, a director of the Company, and director of such wholly-owned subsidiary as landlord in respect of the continued use and occupation of a property for a period of two years from 1 April 2004 to 31 March 2006 with monthly rental of HK$11,250. On 31 March 2006, this wholly-owned subsidiary of the Company entered into another tenancy agreement for the same property on normal commercial terms with Dr. Wan Kwong Kee for a period of six months from 1 April 2006 to 30 September 2006 with monthly rental of HK$11,250. This transaction constituted exempt continuing connected transaction of the Company under Rule 14A.33(3) of the Listing Rules which was exempt from the reporting, announcement and independent shareholders' approval requirements.

(c) During the period, the office premises occupied by a subsidiary of the Company was provided by a key management personnel and a spouse of another key management personnel of the subsidiary. The open market rental value of the office premises for the period ended 30 June 2006 estimated by the key management personnel of this subsidiary was HK$116,000 *(Six months ended 30 June 2005: HK$Nil).*

(d) During the period, the Group have transactions with the following related parties:

	Six months ended 30 June 2006 HK$'000 (unaudited)	Six months ended 30 June 2005 HK$'000 (unaudited)
Sales to two minority shareholders of a subsidiary	89	–
Purchases from a minority shareholder of a subsidiary	1,996	–
Purchases from a branch company of a minority shareholder of a subsidiary which operated by the other two minority shareholders of this subsidiary	579	–

(e) Key management compensation

The key management compensation for the six months ended 30 June 2006 and 2005 is detailed as follows:

	Six months ended 30 June 2006 HK$'000 (unaudited)	Six months ended 30 June 2005 HK$'000 (unaudited)
Salaries	660	873
Retirement scheme contributions	15	21
	675	894

10. SEGMENT INFORMATION

By business segments

The analysis of the principal activities of the operations of the Group during the period is as follows:

	Property investment HK$'000	Pharmaceutical and healthcare HK$'000	Consolidated HK$'000
Six months ended 30 June 2006 (unaudited)			
Sales revenue from external customers	–	73,669	73,669
Segment result	–	2,295	2,295
Six months ended 30 June 2005 (unaudited)			
Sales revenue from external customers	–	465	465
Segment result	(8)	(278)	(286)

11. CONTINGENT LIABILITIES

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