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 2007

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 2007 together with the comparative figures for the year ended 31 December 2006 as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
Turnover	3	**165,676**	144,383
Cost of sales		**(159,192)**	(138,039)
Gross profit		**6,484**	6,344
Other revenue	4	**5,067**	4,047
Other income	4	**7,295**	5,271
Selling and distribution costs		**(840)**	(543)
General and administrative expenses		**(9,367)**	(10,774)
Other operating expenses		**–**	(366)
Profit from operations		**8,639**	3,979
Finance costs	5(a)	**(3,813)**	(4,494)
Profit/(loss) before income tax	5	**4,826**	(515)
Income tax	6	**(1,297)**	(969)
Profit/(loss) for the year		**3,529**	(1,484)
Profit/(loss) attributable to:			
Equity shareholders of the Company	7	**2,657**	(2,421)
Minority interests		**872**	937
		3,529	(1,484)
Dividends		**–**	–
Earnings/(loss) per share	8		
Basic		**HK0.28 cents**	(HK0.25 cents)
Diluted		**N/A**	N/A

CONSOLIDATED BALANCE SHEET

As at 31 December 2007

	Note	**2007**	2006
		HK$'000	*HK$'000*
Non-current assets			
Property, plant and equipment		**1,092**	549
Available-for-sale investment		**–**	–
		1,092	549
Current assets			
Inventories		**7,036**	4,781
Trade and other receivables	*9*	**51,125**	30,522
Financial assets at fair value through profit or loss		**–**	272
Cash and cash equivalents		**9,009**	13,230
		67,170	48,805
Current liabilities			
Trade and other payables	*10*	**35,688**	25,773
Borrowings		**5,951**	1,444
Convertible note		**–**	26,544
Provisions		**14,964**	17,402
Tax payable		**918**	134
		57,521	71,297
Net current assets/(liabilities)		**9,649**	(22,492)
Total assets less current liabilities		**10,741**	(21,943)
Non-current liabilities			
Convertible note		**(24,880)**	–
Net liabilities		**(14,139)**	(21,943)
Capital and reserves attributable to the equity shareholders of the Company			
Share capital	*11*	**19,078**	19,078
Reserves		**(47,082)**	(52,409)
		(28,004)	(33,331)
Minority interests		**13,865**	11,388
Total equity		**(14,139)**	(21,943)

NOTES:

1. BASIS OF PREPARATION AND MATERIAL UNCERTAINTIES IN RESPECT OF GOING CONCERN

(a) Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong. They were also prepared in accordance with the Hong Kong Companies Ordinance and the Rules Governing the Listing Securities on the Stock Exchange. They have been prepared under the historical cost convention modified by the revaluation of certain assets as explained in the accounting policies in the notes to the financial statements, and on a going concern basis as explained in note 1(b) below.

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, amendment and interpretations effective in 2007

- HKFRS 7, "Financial instruments: Disclosures", introduces new disclosures relating to financial instruments and the nature and extent of risks arising from those instruments. HKFRS 7 does not have any impact on the classification and valuation of the Group's financial instruments.

  The amendment to HKAS 1 "Presentation of financial statements – Capital disclosures requires expanded disclosures in respect of information of the Group's and the Company's capital and the objectives, policies and process for managing capital.

- HK(IFRIC)-Int 8, "Scope of HKFRS 2", 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 in order to establish whether or not they fall within the scope of HKFRS 2. The standard does not have any impact on the Group's financial statements.

- HK(IFRIC)-Int 10, "Interim financial reporting and impairment", prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the Group's financial statements.

(ii) Standards, amendments and interpretations effective in 2007 but not relevant to the Group's operations

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Group's operations:

- HKFRS 4, "Insurance contracts";

- HK(IFRIC) – Int 7, "Applying the restatement approach under HKAS 29, Financial reporting in hyper-inflationary economies"; and

- HK(IFRIC) – Int 9, "Re-assessment of embedded derivatives".

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

The following standards, amendments and interpretations to existing standards have been published and are mandatory for accounting periods beginning on or after 1 January 2008 or later periods, but the Group has not early adopted them:

- HKAS 1 (Revised), "Presentation of financial statements" (effective from 1 January 2009). HKAS 1 (Revised) requires all owner changes in equity to be presented in a statement of changes in equity. All comprehensive income is presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). It requires presenting a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when there are retrospective adjustments or reclassification adjustments. However, it does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRSs. The Group will apply HKAS 1 (Revised) from 1 January 2009.

- HKAS 23 (Amendment), "Borrowing costs" (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply HKAS 23 (Revised) from 1 January 2009 but is currently not applicable to the Group as there are no qualifying assets.

- HKFRS 8, "Operating segments" (effective from 1 January 2009). HKFRS 8 replaces HKAS 14 and requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply HKFRS 8 from 1 January 2009. The expected impact is still being assessed by management, but it appears that the number of reportable segments, as well as the manner in which the segments are reported, will likely be changed in a manner that is consistent with the internal reporting provided to the chief operating decision-maker. As goodwill is allocated to groups of cash generating units based on segment level, the change will also require management to reallocate goodwill to the newly identified operating segments.

- HK(IFRIC) – Int 14, "HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction" (effective from 1 January 2008). HK(IFRIC) – Int 14 provides guidance on assessing the limit in HKAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Group will apply HK(IFRIC) – Int 14 from 1 January 2008, but it is not expected to have any impact on the Group's financial statements.

(iv) Interpretations 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 and are mandatory for accounting periods beginning on or after 1 January 2008 or later periods but are not relevant for the Group's operations:

- HK(IFRIC) – Int 11, "HKFRS 2 – Group and treasury share transactions", effective for accounting periods beginning on or after 1 March 2007. HK(IFRIC) – Int 11 provides guidance on whether share-based transactions involving treasury shares or involving group companies (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have an impact on the Group's financial statements. It is not relevant for the Group's operations because none of the group companies have such transactions.

- HK(IFRIC) – Int 12, "Service concession arrangements" (effective from 1 January 2008). HK(IFRIC) – Int 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. HK(IFRIC) – Int 12 is not relevant for the Group's operations because none of the group companies provides public sector services.

- HK(IFRIC) – Int 13, "Customer loyalty programmes" (effective from 1 July 2008). HK(IFRIC) – Int 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. HK(IFRIC) – Int 13 is not relevant for the Group's operations because none of the group companies operate any loyalty programmes.

(b) Material uncertainties in respect of going concern

The consolidated financial statements of the Group have been prepared in accordance with HKFRS. One underlying assumption under HKFRS is that the financial statements are prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future.

As of 31 December 2007, the Group had net liabilities of HK$14,139,000 (2006: HK$21,943,000). This condition indicates the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

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

(ii) 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

(iii) 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, together with the expected results of other measures and arrangements in progress and as planned, 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 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. 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

All of the activities of the Group are based in PRC and all of the Group's turnover and profit before income tax are derived from PRC. Accordingly, no geographical segment information is presented.

3. TURNOVER

Turnover represents revenue arising on sales of pharmaceutical products and laboratory testing services.

	2007	2006
	HK$'000	*HK$'000*
Sales of pharmaceutical products	**165,397**	143,168
Laboratory testing service income	**279**	1,215
	165,676	144,383

4. OTHER REVENUE AND OTHER INCOME

	2007	2006
	HK$'000	*HK$'000*
Other revenue		
Interest income	**1,654**	219
Guarantee income	**3,028**	2,775
Subsidy income	**367**	863
Others	**18**	190
	5,067	4,047
Other income		
Impairment loss reversed in respect of trade and other receivables	**16**	–
Reversal of provisions, net	**–**	1,828
Gain on adjustment of amortised cost of convertible note	**4,326**	3,375
Gain arising from changes in fair value of financial assets at fair value through profit or loss	**–**	68
Gain on disposal of property, plant and equipment	**105**	–
Realised gain on disposal of financial assets at fair value through profit or loss	**1,302**	–
Waive of debts by other payables	**1,546**	–
	7,295	5,271

5. PROFIT/(LOSS) BEFORE INCOME TAX

Profit/(loss) before income tax is arrived at after charging the following:

		2007 *HK$'000*	2006 *HK$'000*
(a)	**Finance costs**		
	Interest expenses on other borrowing wholly repayable within five years	**26**	200
	Interest expenses on bank borrowing wholly repayable within five years	**77**	–
	Imputed interest on convertible note	**3,698**	4,256
	Other finance charges	**12**	38
		3,813	4,494
(b)	**Staff costs**		
	Salaries, wages and allowances (including directors' remuneration)	**2,842**	4,219
	Retirement benefits scheme contribution	**79**	110
		2,921	4,329
(c)	**Other items**		
	Auditors' remuneration		
	– audit services	**500**	403
	– other services	**265**	668
		765	1,071
	Cost of inventories	**159,192**	138,039
	Depreciation	**237**	305
	Guarantee fee	**–**	366
	Minimum lease payments under an operating lease in respect of land and buildings	**934**	1,280
	Impairment loss recognised in respect of trade and other receivables	**–**	22
	Provision for employee benefits	**37**	–
	Net foreign exchange loss	**389**	134
	Property, plant and equipment written off	**19**	–

6. INCOME TAX

(a) Income tax in the consolidated income statement represents:

	2007	2006
	HK$'000	*HK$'000*
Current tax		
Hong Kong	**–**	–
PRC Enterprise Income Tax	**1,047**	864
	1,047	864
Underprovision in respect of prior years		
Hong Kong	**–**	–
PRC Enterprise Income Tax	**250**	105
	250	105
	1,297	969

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 year (2006: HK$Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

(b) Reconciliation between income tax and accounting profit at the applicable tax rates:

Group

	2007	2006
	HK$'000	*HK$'000*
Profit/(loss) before income tax	**4,826**	(515)
Notional tax on profit/(loss) before income tax, calculated at the rates applicable to profits in the tax jurisdictions concerned	**1,383**	423
Tax effect of non-deductible expenses	**903**	1,182
Tax effect of non-taxable income	**(1,890)**	(1,638)
Tax effect of prior year's temporary differences recognised this year	**(13)**	5
Tax effect of utilisation of unused tax losses not recognised in prior years	**(1)**	–
Tax effect of unused tax losses not recognised	**665**	892
Under-provision in prior years	**250**	105
Income tax	**1,297**	969

(c) On 16 March 2007, the People's Republic of China promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate from 33% to 25% for the Group's PRC subsidiary, Tianjin Jinshun from 1 January 2008. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

In addition, under the New Law, a withholding tax may be applied on the gross amount of dividends received by the Company from its PRC subsidiaries after 1 January 2008. The Implementation Rules provides for the withholding tax rate to be at 10% unless reduced by treaty.

7. PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit/(loss) attributable to equity shareholders of the Company includes a loss of HK$1,448,000 (2006: HK$5,994,000) which has been dealt with in the financial statements of the Company.

8. EARNING/(LOSS) PER SHARE

(a) Basic

The calculation of basic earning/(loss) per share is based on the profit attributable to ordinary equity shareholders of the Company of HK$2,657,000 (2006: loss of HK$2,421,000) and the weighted average number of 953,906,963 ordinary shares (2006: weighted average number of 953,906,963 ordinary shares) in issue during the year.

(b) Diluted

Diluted earning/(loss) per share for the year ended 31 December 2007 and 2006 has not been disclosed as the potential ordinary shares outstanding during the years have an anti-dilutive effect on the basic earning/(loss) per share for the years.

9. TRADE AND OTHER RECEIVABLES

	Group		**Company**	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade receivables *(note (a))*	**49,094**	30,212	**–**	–
Less: allowance for doubtful debts	**(24)**	(40)	**–**	–
	49,070	30,172	**–**	–
Other receivables, deposits and prepayments	**2,055**	350	**760**	178
	51,125	30,522	**760**	178

All of the trade and other receivables are expected to be recovered within one year.

Included in trade receivables is HK$266,000 (2006: HK$81,000) and HK$70,000 (2006: HK$Nil) due from a minority shareholder of a subsidiary and a related company respectively.

Notes:

(a) Ageing analysis

Included in trade and other receivables are trade receivables net of allowance for doubtful debts of HK$24,000 (2006: HK$40,000) with the following ageing analysis as of the balance sheet date:

	2007	2006
	HK$'000	*HK$'000*
Within 90 days	**40,270**	20,337
91 days to 180 days	**5,551**	8,023
181 days to 365 days	**3,246**	1,819
Over 365 days	**27**	33
	49,094	30,212

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:

Group

	2007	2006
	'000	*'000*
Renminbi	**47,008**	30,381

(b) Impairment of trade receivables

Impairment losses in respect of trade debtors are recorded using an allowance account unless the Group is satisfied that the recovery of the amount is remote, in which case the impairment loss is written off against trade debtors directly.

Movements in the allowance of doubtful debts

Group

	2007	2006
	HK$'000	*HK$'000*
At 1 January	**40**	18
Impairment loss recognised	**–**	22
Amount reversed during the year	**(16)**	–
At 31 December	**24**	40

Note:

(i) As at 31 December 2007, trade receivables of the Group amounting HK$24,000 (2006: HK$40,000) were individually determined to be impaired and full provision had been made. These individually impaired receivables were outstanding for over 365 days as at the balance sheet date or were due from companies with financial difficulties. Accordingly, specific allowances for doubtful debts of HK$16,000 (2006: HK$Nil) were recognised. The factors which the Group considered in determining whether these trade receivables were individually impaired include the following:

- significant financial difficulty of the debtor;
- receivables that have been outstanding for over 365 days;
- the Group granting to the debtor, for economic or legal reasons relating to the debtor's financial difficulty, a concession that the Group would not otherwise consider;
- it is becoming probable that the debtor will enter into bankruptcy or other financial reorganisation;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from the debtor since their initial recognition, although the decrease cannot yet be identified including:
    - adverse changes in the payment status of debtors in the Group;
    - economic conditions that correlate with defaults on the trade receivables in the Group.

(ii) 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 (2006: 30 to 180 days). The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. Further details on the Group's credit policy is set out in the notes to the financial statements.

No cash deposits nor collateral had been placed by the related trade debtors with the Group (2006: HK$Nil)

(c) Trade receivables that are not impaired

The ageing analysis of trade debtors that are neither individually nor collectively considered to be impaired is as follows:

Group

	2007	2006
	HK$'000	*HK$'000*
Neither past due nor impaired	**45,821**	28,360
Less than 6 months past due	**3,246**	1,812
Over 6 months past due	**3**	–
	3,249	1,812
	49,070	30,172

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

(d) Certain trade receivables with an aggregate carrying amounts of approximately HK$6,029,000 (2006: HK$Nil) are pledged to a bank for bank loan granted to the Group.

10. TRADE AND OTHER PAYABLES

	Group		**Company**	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade payables *(note (a))*	**17,926**	15,386	**–**	–
Bills payable *(note (b))*	**1,231**	–	**–**	–
Other payables and accruals	**3,312**	4,589	**2,646**	4,292
Due to directors *(note (c))*	**2,921**	847	**2,921**	847
Due to minority shareholders of a subsidiary *(note (d))*	**10,298**	4,951	**–**	–
	35,688	25,773	**5,567**	5,139

Included in trade payables are HK$Nil (2006: HK$615,000) and HK$234,000 (2006: HK$Nil) due to a minority shareholder of a subsidiary and a related company respectively.

All of the trade and other payables are expected to be settled within one year.

Notes:

(a) The following is an ageing analysis of trade payables as at the balance sheet date:

Group

	2007	2006
	HK$'000	*HK$'000*
Within 90 days	**16,323**	13,532
91 days to 180 days	**970**	1,437
181 days to 365 days	**264**	302
Over 365 days	**369**	115
	17,926	15,386

(b) As at 31 December 2007, bills payable were secured by certain bank deposit of the Group with a carrying amount of approximately HK$631,000 (2006: HK$Nil) and a property of a staff.

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

	Group		**Company**	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Name of director				
Mr. Wu Kwai Yung	**1,236**	100	**1,236**	100
Mr. Zhao Tie Liu	**1,173**	111	**1,173**	111
Dr. Wan Kwong Kee	**–**	294	**–**	294
Mr. Leung Hon Man	**–**	50	**–**	50
Mr. Zhou Haijun	**162**	82	**162**	82
Mr. Ng Wai Hung	**190**	130	**190**	130
Mr. Xu Zhi	**160**	80	**160**	80
	2,921	847	**2,921**	847

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

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

(e) 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:

Group

	2007	2006
	'000	*'000*
Renminbi	**33,385**	23,311

11. SHARE CAPITAL

	2007	2006
	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 (2006: 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 2007 and 2006.

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 2007 and of the Group's profit 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 reported consolidated net liabilities of HK$14,139,000. This condition, 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

During 2007, keen competition in the pharmaceutical market still existed and tight supervision over the drug prices by the government in the PRC remained the same. Despite of these, the Group still experienced improvements in our operations and financial position during the year under review.

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 2007. As a result, consolidated turnover recorded by the Group for the year ended 31 December 2007 was approximately HK$165,676,000 and increased 14.7% from the previous year.

During the year, Hong Jin Holdings Limited ("Hong Jin"), the controlling shareholder of the Company exercised its discretion to further extend the maturity date of a HK$30 million zero-coupon convertible note (the "Note") to 31 March 2009. Accordingly, the Group recorded a gain on adjustment of amortised cost of the Note of HK$4,326,000. The Group also recognised a guarantee income of HK$3,028,000 receivable from two minority shareholders of Tianjin Jinshun and reversed provisions for legal claims and employee benefits of approximately HK$NIL.

Administrative expenses dropped by 13% to HK$9,367,000 (2006: HK$10,774,000) 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 2007 was HK$3,813,000 (2006: HK$4,494,000) representing a decrease of 15.1%. The decrease was due to reduction in certain borrowings in Hong Kong.

Consolidated profit reported for the year was HK$3,529,000 as compared to a loss of HK$1,484,000 in 2006.

Profit per share for the year was HK0.28 cents (2006: loss per share of HK0.25 cents) because a profit was recorded for the year.

Review Of Operations

The PRC

During the year under review, the Chinese government continued to strengthen supervision over drug prices and expanded the scope of drugs under government-set pricing. As drug manufacturers and distributors in the PRC have to comply with the existing pricing caps in dealing with the regulated drugs, competition became stiffer and profit margins were inevitably narrowed within the pharmaceutical industry.

In spite of the averse circumstances, the Group continued to distribute its existing products with resulted turnover increased to HK$165,397,000 which accounted for 99.8% (2006: 99.2%) of the total turnover of the Group.

Hong Kong

The Group was reviewing and restructuring its pharmaceutical and healthcare business during the year to enhance the performance of this business segment. Preliminary exploration and negotiation with certain local hospitals in central China to setting up testing laboratories and provision of DNA testing services have been started and undergoing. As the business was under restructuring process, it contributed about HK$279,000 and accounted for approximately 0.2% (2006: 0.8%) of the total turnover of the Group.

During the year, there were no material acquisitions and disposals of subsidiaries and associates.

Liquidity and Financial Resources

As at 31 December 2007, the Group had total assets of approximately HK$68,262,000 (2006: HK$49,354,000), among which, HK$67,170,000 (2006: HK$48,805,000) were current assets comprised mainly of trade and other receivables of HK$51,125,000, bank balance and cash of HK$9,009,000.

Total liabilities of the Group amounted to approximately HK$82,401,000 (2006: HK$71,297,000). Among the total liabilities, HK$24,880,000 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 further extended by Hong Jin to 31 March 2009. The other current liabilities included mainly other borrowings of HK$5,951,000, trade and other payables of HK$35,688,000 and the provisions of HK$14,964,000 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 2007. The gearing ratio (total liabilities as a percentage of total assets) decreased to 120.7% at the end of 2007 (As at 31 December 2006: 144.5%). Current ratio improved from 68.5% to 116.8% as at 31 December 2007. 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 2007, certain assets of the Group with aggregate carrying value of approximately HK$6,710,000 were pledged to secure the Group's borrowing as compared to HK$255,000 as at 31 December 2006.

Employee Remuneration Policy and Number of Employees

As at 31 December 2007, the Group employed 48 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 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 ended 31 December 2006, the Company has successfully come to agreement with relevant bankers and all contingent liabilities regarding the above had been released.

Outlook

The Group in the past participated as drug distributor in the PRC pharmaceutical market and had enjoyed rapid growth of the industry. As the PRC pharmaceutical market is expected to grow continuously, the Group will continue to expand its operations in the pharmaceutical business.

The management notes that the profit margins of the distribution of pharmaceutical products had been narrowed by keen competition and stringent government pricing policy. In order to improve the profitability of the Group and strengthen its competitiveness in the market, it is believed that the development and distribution of its own pharmaceutical products will be the long-term strategy for the

Group to pursue. The Group is currently identifying various pharmaceutical products with potential to be invested and collaborating with certain medical institutes in launching the DNA testing services/ products in the PRC.

At the same time, the Company also solicits investors in making investments in and/or introducing new projects to the Group to assist its business to expand.

Trading 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 should 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 warrant the Company's compliance with Rule 13.24. After reviewing the Company's proposal, the Stock Exchange decided that the proposal was not viable. The Company is currently in the process of obtaining professional advice and discussing with its professional advisors on the appropriate actions to be taken by the Company in achieving the resumption of trading of its shares. Further announcement(s) will be made by the Company in respect of this matter as and when appropriate.

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 2007 (2006: 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 2007.

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, except with the following deviations:

Code provision A.4.1 of the CG Code stipulates 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.

Code provision E.1.2 of the CG Code stipulates that the chairman of the board should attend the Annual General Meeting. Owing to an important commitment overseas, the chairman of the board of the Company, Mr. Wu Kwai Yung, has given an apology for not presiding the 2007 Annual General

Meeting. Hence, he has appointed the Managing Director, Mr. Zhao Tie Liu to preside the 2007 Annual General Meeting on his behalf. The chairman of the board of the Company, Mr. Wu, will endeavor to attend future Annual General Meetings of the Company unless any exceptional circumstances occur.

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 2007.

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 2007 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 2007. 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 2007.

DIRECTORS

As at the date of this announcement, the Executive Directors are Mr. Wu Kwai Yung, Mr. Zhao Tie Liu and the Independent Non-executive Directors are Mr. Zhou Haijun, Mr. Xu Quing Fah and Mr. Xu Zhi.

PUBLICATION OF FINANCIAL INFORMATION

The annual report of the Company for the year ended 31 December 2007 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, 28 April 2008