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

Interim Report **2007**

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors:
Mr. Wu Kwai Yung *(Chairman)*
Mr. Zhao Tie Liu *(Managing Director)*
Mr. Leung Hon Man
Dr. Wan Kwong Kee
(Resigned on 3 April 2007)

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

P. C. Woo & Co.

AUDITORS

CCIF CPA Limited
20/F, Sunning Plaza
10 Hysan Avenue
Causeway Bay
Hong Kong

REGISTERED OFFICE

Workshop 16, 18/F
New Commerce Centre
19 On Sum Street, Shatin
New Territories, Hong Kong

REGISTRAR AND TRANSFER OFFICE

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

OVERVIEW

During the first half of 2007, the Group encountered keen competition in the pharmaceutical market and tight supervision over the drug prices by the government in the PRC. Despite these adverse conditions, the Group still saw improvements in level of operations and financial position during the period under review.

FINANCIAL RESULTS

For the period ended 30 June 2007, the Group achieved a turnover of approximately HK$76,302,000 representing an increase of approximate 3.6% as compared to HK$73,669,000 for the period ended 30 June 2006. As there was keener competition in the pharmaceutical market and wider governmental control over drug prices in the period under review, the cost of sales of the Group increased by 4.6% and squeezed the profit margins of the Group.

During the corresponding period in 2006, 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. As a result of such extension, the Group recorded a gain on adjustment of amortised cost of the convertible note of HK$3,375,000 in the first half of 2006. As there was no such gain in the current period, other revenue dropped by about 18.4% or HK$936,000 for the six months ended 30 June 2007. Other revenue for the current period amounted to HK$4,142,000 which included mainly a guarantee income receivable from two minority shareholders of Tianjin Jinshun in the amount of HK$1,107,000, an interest income of HK$1,560,000 and a gain on disposal of financial assets of HK$1,302,000.

The Group continued to take measures to control its general and administrative expenses. The total staff cost including directors' remuneration decreased from HK$2,270,000 for the six months ended 30 June 2006 to HK$1,588,000 for the same period in 2007 and a reduction of staff cost by 30.0% was resulted. In May 2007, the Group moved into a new office of lower rental cost. As a result, the Group saved about 19.6% on rental expenses which amounted to HK$559,000 (Six months ended 30 June 2006: HK$695,000) for the first half of 2007. Though the Group had reduced the expenses in respect of staff cost and rental expenses during the period under review, the reduction was offset by the increase in professional fees in relating to the application for resumption of trading of its shares by the Company. As such, the overall decrease in general and administrative expenses of the Group was approximate HK$120,000 or 2.4% in the current period.

Finance costs for the six months ended 30 June 2007 included mainly the imputed interest incurred on the Note for which there is no actual payment and it is a mere book-entry. The total amount of finance costs incurred in the current period was HK$1,817,000 (Six months ended 30 June 2006: HK$2,653,000) represented a decrease of 31.5% or HK$836,000 as compared to the corresponding period in 2006. Because of the imputed interest recorded on the Note, operating profit of the Group of HK$1,810,000 (Six months ended 30 June 2006: HK$3,104,000) turned into a loss before income tax of HK$7,000 (Six months ended 30 June 2006: profit before income tax of HK$451,000) during the period under review.

Unaudited consolidated loss for the period was HK$840,000 as compared to a loss of HK$115,000 for the same period in 2006. The increase of HK$725,000 in consolidated loss was mainly attributed to the profit margins narrowed by keen market competition and tight governmental control over drug prices as well as the decrease in other revenue of the Group as mentioned above.

Loss per share for the period was 0.16 HK cents (Six months ended 30 June 2006: 0.06 HK cents) because of the loss recorded for the period.

REVIEW OF OPERATIONS

The PRC

During the period 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 adverse circumstances, the Group continued to distribute its existing products and generated approximately HK$76,023,000 for the first half of 2007 which accounted for 99.6% of the total turnover of the Group (Six months ended 30 June 2006: 99.2%).

Hong Kong

The Group was reviewing and restructuring its pharmaceutical and healthcare business during the review period to enhance the performance of this business segment. Preliminary exploration and negotiation with certain local hospitals in central China of 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 in the first half of 2007 and accounted for approximately 0.4% (Six months ended 30 June 2006: 0.8%) of the total turnover of the Group.

During the six months ended 30 June 2007, there were no material acquisitions and disposals of subsidiaries and associates.

LIQUIDITY AND FINANCIAL RESOURCES

Total assets of the Group increased to approximately HK$64,439,000 as at 30 June 2007 (At 31 December 2006: HK$49,354,000). Among the total assets, HK$63,528,000 (At 31 December 2006: HK$48,805,000) were current assets including trade and other receivables of HK$47,152,000, loan receivable of HK$4,105,000, bank balances and cash of HK$4,293,000 and inventories of HK$7,978,000.

At 30 June 2007, the Group had total liabilities of HK$84,823,000 (At 31 December 2006: HK$71,297,000) and all of them were of current nature. Current liabilities of the Group as at the balance sheet date included the Note of HK$30 million (the carrying amount of which was HK$28,326,000) held by the controlling shareholder of the Company. The Note will be matured on 7 December 2007 and is to be converted to new shares at HK$0.17 each upon the resumption of trading of the Company's shares. In addition to the Note, current liabilities was also comprised of trade and other payables of HK$40,809,000 and provisions of HK$14,964,000. As at the balance sheet date, the Group did not have any bank or other borrowings (At 31 December 2006: HK$1,444,000).

Gearing ratio (total liabilities as a percentage of total assets) of the Group decreased to 131.6% of the current period (At 31 December 2006: 144.5%). Current ratio improved from 68.5% as at 31 December 2006 to 74.9% as at 30 June 2007.

At the period end, the Group had capital deficiency of HK$20,384,000 (At 31 December 2006: HK$21,943,000). 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 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, and investments 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 2007, the Group pledged the bank deposits of HK$50,000 (At 31 December 2006: HK$50,000) to secure a corporate credit card account and pledged certain financial assets with a carrying amount of HK$Nil (At 31 December 2006: HK$255,000) to secure borrowing granted to the Group.

EMPLOYEE REMUNERATION POLICY AND NUMBER OF EMPLOYEES

As at 30 June 2007, the Group engaged 59 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

As at 30 June 2007, the Group did not have any significant contingent liabilities

PROSPECTS

The Group in the past participated as drug distributor in the PRC pharmaceutical market and had enjoyed the 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 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 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. 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.

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 has 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 2007 (Six months ended 30 June 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 period ended 30 June 2007.

DIRECTORS' INTERESTS IN EQUITY SECURITIES

As at 30 June 2007, 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 *(Notes 1,2)*	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 2007, 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 2007, 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	643,835,616 *(Note 1)*	67.5%
Hong Jin Holdings Limited	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 2007, 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, 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.

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, 25 September 2007

INDEPENDENT REVIEW REPORT

CCIF

CCIF CPA LIMITED

20/F Sunning Plaza
10 Hysan Avenue
Causeway Bay Hong Kong

TO THE BOARD OF DIRECTORS OF SANYUAN GROUP LIMITED
(Incorporated in Hong Kong with Limited Liability)

INTRODUCTION

We have reviewed the interim financial statements set out on pages 13 to 28 which comprise the condensed consolidated balance sheet of Sanyuan Group Limited as of 30 June 2007 and the related condensed consolidated income statement, condensed consolidated statement of changes in equity and condensed consolidated cash flow statement for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information 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. The directors are responsible for the preparation and presentation of these interim financial statements in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to express a conclusion on these interim financial statements based on our review 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.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

Without qualifying our review conclusion, we draw attention to note 2(b) to the interim financial statements which indicates that the Group incurred consolidated loss attributable to equity holders of the Company of HK$1,517,000 during the period ended 30 June 2007 and, as of that date, the Group reported consolidated net current liabilities of HK$21,295,000 and net liabilities of HK$20,384,000. These conditions, along with other matters as set forth in note 2(b) to the interim financial statements, indicate the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern.

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 25 September 2007

Fung Pui Cheung
Practising Certificate Number P00755

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2007

	Note	Six months ended 30 June 2007 HK$'000 (Unaudited)	Six months ended 30 June 2006 HK$'000 (Unaudited) (Restated)
Turnover	4	**76,302**	73,669
Cost of sales		**(73,411)**	(70,194)
Gross profit		**2,891**	3,475
Other revenue	4	**4,142**	5,078
Selling and distribution costs		**(336)**	(266)
General and administrative expenses		**(4,887)**	(5,007)
Other operating expenses		**–**	(176)
Operating profit		**1,810**	3,104
Finance costs	5	**(1,817)**	(2,653)
(Loss)/profit before income tax	6	**(7)**	451
Income tax	7	**(833)**	(566)
Loss for the period		**(840)**	(115)
(Loss)/profit attributable to:			
Equity holders of the Company	8	**(1,517)**	(575)
Minority interests		**677**	460
		(840)	(115)
Dividends		–	–
Loss per share for loss attributable to the equity holders of the Company during the period	9		
– basic		**(HK$0.16 cents)**	(HK$0.06 cents)
– diluted		**N/A**	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2007

	Note	At 30 June 2007 HK$'000 (Unaudited)	At 31 December 2006 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment		**911**	549
Available-for-sale investments		**–**	–
		911	549
Current assets			
Inventories		**7,978**	4,781
Trade and other receivables	*10*	**47,152**	30,522
Loan receivable		**4,105**	–
Financial assets at fair value through profit or loss	*11*	**–**	272
Cash and cash equivalents		**4,293**	13,230
		63,528	48,805
Current liabilities			
Trade and other payables	*12*	**40,809**	25,773
Other borrowing	*13*	**–**	1,444
Convertible note	*14*	**28,326**	26,544
Provisions		**14,964**	17,402
Tax payable		**724**	134
		84,823	71,297
Net current liabilities		**(21,295)**	(22,492)
Net liabilities		**(20,384)**	(21,943)
Capital and reserves attributable to the equity holders of the Company			
Share capital		**19,078**	19,078
Reserves		**(53,410)**	(52,409)
		(34,332)	(33,331)
Minority interests		**13,948**	11,388
Total equity		**(20,384)**	(21,943)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2007

	Share Capital HK$'000 (Unaudited)	Share premium HK$'000 (Unaudited)	Capital reserve HK$'000 (Unaudited)	General reserve HK$'000 (Unaudited)	Special capital reserve HK$'000 (Unaudited)	Exchange fluctuation reserve HK$'000 (Unaudited)	Statutory common reserve HK$'000 (Unaudited)	Accumulated losses HK$'000 (Unaudited)	Total reserves HK$'000 (Unaudited)	Minority interests HK$'000 (Unaudited)	Total HK$'000 (Unaudited)
At 1 January 2006	19,078	34,123	4,337	200	22,853	–	–	(111,922)	(50,409)	5,769	(25,562)
Exchange realignment	–	–	–	–	–	79	–	–	79	–	79
Net income recognised directly in equity	–	–	–	–	–	79	–	–	79	–	79
(Loss)/profit for the period	–	–	–	–	–	–	–	(575)	(575)	460	(115)
Total recognised income/(expense)	–	–	–	–	–	79	–	(575)	(496)	460	(36)
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)	(50,905)	10,654	(21,173)
Representing											
Share capital	19,078	–	–	–	–	–	–	–	–		
Reserves	–	34,123	4,337	200	22,853	79	–	(112,497)	(50,905)		
	19,078	34,123	4,337	200	22,853	79	–	(112,497)	(50,905)		
At 1 January 2007	19,078	34,123	4,337	200	22,853	421	88	(114,431)	(52,409)	11,388	(21,943)
Exchange realignment	–	–	–	–	–	516	–	–	516	344	860
Net income recognised directly in equity	–	–	–	–	–	516	–	–	516	344	860
(Loss)/profit for the period	–	–	–	–	–	–	–	(1,517)	(1,517)	677	(840)
Total recognised income/(expense)	–	–	–	–	–	516	–	(1,517)	(1,001)	1,021	20
Capital injection by minority shareholder in a subsidiary	–	–	–	–	–	–	–	–	–	1,539	1,539
Appropriation	–	–	–	–	–	–	86	(86)	–	–	–
At 30 June 2007	19,078	34,123	4,337	200	22,853	937	174	(116,034)	(53,410)	13,948	(20,384)
Representing											
Share capital	19,078	–	–	–	–	–	–	–	–		
Reserves	–	34,123	4,337	200	22,853	937	174	(116,034)	(53,410)		
	19,078	34,123	4,337	200	22,853	937	174	(116,034)	(53,410)		

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2007

	Six months ended 30 June 2007 HK$'000 (Unaudited)	Six months ended 30 June 2006 HK$'000 (Unaudited)
NET CASH FLOW USED IN OPERATING ACTIVITIES	(7,032)	(8,304)
NET CASH FLOW GENERATED FROM/ (USED IN) INVESTING ACTIVITIES	1,251	(196)
NET CASH FLOW (USED IN)/GENERATED FROM FINANCING ACTIVITIES	(3,947)	4,520
NET DECREASE IN CASH AND CASH EQUIVALENTS	(9,728)	(3,980)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	13,230	17,369
EFFECT OF FOREIGN CURRENCY TRANSLATION	791	76
CASH AND CASH EQUIVALENTS AT END OF PERIOD	4,293	13,465
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents	4,293	13,465

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2007

1. GENERAL INFORMATION

Sanyuan Group Limited (the "Company") and its subsidiaries (collectively the "Group") are principally engaged in selling and trading of pharmaceutical products and laboratory testing service.

The Company is a limited liability company incorporated in Hong Kong and its registered office is Workshop 16, 18/F., New Commerce Centre, 19 On Sum Street, Shatin, New Territories, Hong Kong.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

These unaudited condensed consolidated interim financial statements are presented in thousands of units of Hong Kong dollars (HK$'000), unless otherwise stated. These unaudited condensed consolidated interim financial statements have been approved for issue by the Board of Directors on 25 September 2007.

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

(a) BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2007 have been prepared in accordance with Hong Kong Accounting Standards ("HKAS") 34 "Interim Financial Reporting". The unaudited condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2006.

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2006 as described in the annual financial statements for the year ended 31 December 2006.

The following new standards, amendments to standards and interpretations are mandatory for financial year ended 31 December 2007.

HKAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment

The adoption of the above new standards, amendments to standards and interpretations did not have any significant impacts to the Group.

The following new standards, amendments to standards and interpretations have been issued but are not effective and have not been early adopted. The directors anticipate that the adoption of these standards, amendments to standards and interpretations will not result in substantial changes to the Group's accounting policies.

HKFRS 8	Operating Segments
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements
HKAS 23 (Revised)	Borrowing Costs

(b) MATERIAL UNCERTAINTIES IN RESPECT OF GOING CONCERN

The Group sustained consolidated loss attributable to equity holders of the Company of HK$1,517,000 (Six months ended 30 June 2006: HK$575,000) for the period ended 30 June 2007. At 30 June 2007, the Group had consolidated net current liabilities of HK$21,295,000 (At 31 December 2006: HK$22,492,000), net liabilities of HK$20,384,000 (At 31 December 2006: HK$21,943,000) and provisions of HK$14,964,000 (At 31 December 2006: HK$17,402,000).

Notwithstanding going concerns and liquidity concerns arising from the consolidated net current liabilities as at 30 June 2007, the unaudited condensed consolidated interim 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 the 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 the cases in respect of the provision 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 provisions 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, 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 unaudited condensed consolidated interim 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 unaudited condensed consolidated interim financial statements.

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

	Six months ended 30 June					
	Hong Kong		**Mainland China**		**Consolidated**	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
Segment revenue:						
Sales to external customers	**279**	610	**76,023**	73,059	**76,302**	73,669
Segment results	**(2,532)**	(1,264)	**1,015**	689	**(1,517)**	(575)

4. TURNOVER AND OTHER REVENUE

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

	Six months ended 30 June 2007 HK$'000 (Unaudited)	Six months ended 30 June 2006 HK$'000 (Unaudited)
Turnover		
Sales and distribution of pharmaceutical products	**76,023**	73,059
Laboratory testing service income	**279**	610
	76,302	73,669
Other revenue		
Reversal of impairment on trade receivables	**14**	–
Gain on disposal of property, plant and equipment	**86**	–
Gain on adjustment of the amortised cost of convertible note	**–**	3,375
Realised gain on disposal of financial assets at fair value through profit or loss	**1,302**	–
Interest income	**1,560**	135
Guarantee income earned	**1,107**	1,333
Subsidy income	**61**	–
Other income	**12**	235
	4,142	5,078
Total	**80,444**	78,747

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

5. FINANCE COSTS

	Six months ended 30 June 2007 HK$'000 (Unaudited)	Six months ended 30 June 2006 HK$'000 (Unaudited)
Imputed interest on convertible note	**1,782**	2,559
Other finance charges	**35**	94
	1,817	2,653

6. (LOSS)/PROFIT BEFORE INCOME TAX

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

	Six months ended 30 June 2007 HK$'000 (Unaudited)	Six months ended 30 June 2006 HK$'000 (Unaudited)
Staff costs, excluding directors' remuneration:		
Salaries, wages and allowances	**1,134**	1,538
Contributions to retirement benefit schemes	**46**	57
	1,180	1,595
Auditors' remuneration		
Audit fees		
– Current year	**–**	–
– Under provision in prior years	**58**	–
Non-audit fees	**207**	220
	265	220
Depreciation	**110**	169
Guarantee income paid	**–**	176
Minimum lease payments under an operating lease in respect of land and buildings	**559**	695
Exchange loss, net	**112**	–

7. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong for the six months period ended 30 June 2007 and 2006. 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 condensed consolidated income statement represents:

	Six months ended 30 June 2007 HK$'000 (Unaudited)	Six months ended 30 June 2006 HK$'000 (Unaudited)
Hong Kong profits tax	**–**	–
PRC income tax	**833**	566
Income tax	**833**	566

The Group did not have any significant unprovided deferred income tax in respect of the six months period ended 30 June 2007 and 2006.

8. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company is dealt with in the unaudited condensed consolidated interim financial statements of the Company to the extent of HK$1,517,000 (Six months ended 30 June 2006: HK$575,000).

9. LOSS PER SHARE

(a) Basic

The calculation of basic loss per share for the period ended 30 June 2007 was based on the consolidated loss for the period attributable to equity holders of the Company of HK$1,517,000 (Six months ended 30 June 2006: HK$575,000) and the weighted average of 953,906,963 shares (Six months ended 30 June 2006: 953,906,963 shares) in issue during the period.

(b) Diluted

Diluted loss per share amount for the six months period ended 30 June 2007 and 2006 has not been disclosed as the potential ordinary shares outstanding during the periods had an anti-dilutive effect on the basic loss for the periods.

10. TRADE AND OTHER RECEIVABLES

	At 30 June 2007 HK$'000 (Unaudited)	At 31 December 2006 HK$'000 (Audited)
Trade receivables *(Note (a))*	**44,160**	30,212
Less: Provision for impairments	**(26)**	(40)
	44,134	30,172
Other receivables, deposits and prepayments	**3,018**	350
	47,152	30,522

Note:

(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 (At 31 December 2006: 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 trade receivables is as follows:

	At 30 June 2007 HK$'000 (Unaudited)	At 31 December 2006 HK$'000 (Audited)
Within 90 days	**30,349**	20,337
91 days to 180 days	**5,179**	8,023
181 days to 365 days	**5,186**	1,819
Over 365 days	**3,446**	33
	44,160	30,212

Included in trade receivables is HK$269,000 (At 31 December 2006: HK$81,000) due from one (At 31 December 2006: one) minority shareholder of a subsidiary.

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	At 30 June 2007 HK$'000 (Unaudited)	At 31 December 2006 HK$'000 (Audited)
Equity securities listed in Hong Kong	**–**	272
Market value of listed securities	**–**	272

Certain financial assets at fair value through profit or loss with a carrying amount approximately HK$Nil (At 31 December 2006: HK$255,000) are pledged to a securities broker to secure the borrowing granted by a securities broker (Note 13).

12. TRADE AND OTHER PAYABLES

	At 30 June 2007 HK$'000 (Unaudited)	At 31 December 2006 HK$'000 (Audited)
Trade payables *(Note (a))*	**22,635**	15,386
Other payables and accruals	**4,744**	4,589
Due to directors	**3,020**	847
Due to minority shareholders of a subsidiary	**10,410**	4,951
	40,809	25,773

Note:

(a) The ageing analysis of the trade payables is as follows:

	At 30 June 2007 HK$'000 (Unaudited)	At 31 December 2006 HK$'000 (Audited)
Within 90 days	**19,320**	13,532
91 days to 180 days	**2,703**	1,437
181 days to 365 days	**492**	302
Over 365 days	**120**	115
	22,635	15,386

Included in trade payables is HK$11,000 (At 31 December 2006: HK$615,000) due to one (At 31 December 2006: one) minority shareholder of a subsidiary.

13. OTHER BORROWING

	At 30 June 2007 HK$'000 (Unaudited)	At 31 December 2006 HK$'000 (Audited)
Other borrowing, secured	**–**	1,444

The amount as at 31 December 2006 represented an amount due to a securities broker and bore interest at rates ranging from 14% to 15% per annum. The borrowing was secured by certain of the Group's financial assets at fair value through profit or loss with a carrying amount of approximately HK$255,000 as at 31 December 2006 (Note 11). The borrowing has been fully settled on 12 February 2007.

14. CONVERTIBLE NOTE

On 28 September 2005, the Company issued a zero-coupon convertible note in the principal amount of HK$30,000,000 ("Note") to Hong Jin in which Mr. Wu Kwai Yung, a director of the Company held 70% interest of Hong Jin. The Note will be due on 7 December 2006 and the maturity date may be extended for further 12 months by Hong Jin at its sole discretion. 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 were 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.

On 7 April 2006 Hong Jin had exercised its discretion to extend the maturity date of the Note to 7 December 2007. The Note had not been converted during the six months period ended 30 June 2007 and 2006.

The Note was split into liability and equity components of HK$25,663,000 and HK$4,337,000 respectively upon initial recognition by recognising the liability component at its fair value and attributing to the equity component the residual amount. The liability component is subsequently carried at amortised cost and the equity component is recognised in the capital reserve.

The movement of the liability component of the Note for the periods is as follows:

	At 30 June 2007 HK$'000 (Unaudited)	At 31 December 2006 HK$'000 (Audited)
Liability component at beginning of period/year	**26,544**	25,663
Interest charge	**1,782**	4,256
Gain on adjustment of the amortised cost	**–**	(3,375)
Liability component at end of period/year	**28,326**	26,544
Analysed for reporting purposes as:		
Current liability	**28,326**	26,544
Non-current liability	**–**	–
	28,326	26,544

The fair value of the liability component of the Note, determined based on the present value of the estimated future cash outflows discounted at the prevailing market rate for an equivalent non-convertible note at the balance sheet date, approximate their corresponding carrying amount.

15. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions/information disclosed elsewhere in these unaudited condensed consolidated interim financial statements, during the period, the Group had the following transactions:

Related parties	**Nature of transactions**	**Amount paid to/ (received from) the related parties**	
		Six months ended 30 June 2007 HK$'000 (Unaudited)	Six months ended 30 June 2006 HK$'000 (Unaudited)
Minority shareholders of a subsidiary	Sales *(Note (i))*	**(227)**	(89)
	Purchases *(Note (i))*	**389**	1,996
	Guarantee income earned *(Note (ii))*	**1,107**	1,333
	Guarantee income paid *(Note (ii))*	**–**	176
Branch company of a minority shareholder of a subsidiary	Purchases *(Note (i))*	**–**	(579)

Note:

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

(ii) Pursuant to joint venture agreement entered into by both parties.

(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 a 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, the tenancy agreement was further extended to 30 September 2006 with monthly rental remain unchanged. No more tenancy agreement was renewed after 30 September 2006 even the property was still used and occupied by the wholly-owned subsidiary up to 15 April 2007. This transaction constituted exempt continuing connected transaction of the Company under Rule 14A.33(3) of the Listing Rules which was exempted from the reporting, announcement and independent shareholders' approval requirements.

(c) During the period, the office premises occupied by Tianjin Jinshun were provided by the key management personnel of Tianjin Jinshun, Mr. Zhao Geng and Mr. Zhang Wei's spouse free of charge. The open market rental value of the office premises of Tianjin Jinshun for the six months ended 30 June 2007 estimated by Mr. Zhao Geng and Mr. Zhang Wei was HK$42,000 (Six months ended 30 June 2006: HK$37,000).

(d) The key management compensation for the six months ended 30 June 2007 and 2006 is detailed as follows:

	Six months ended 30 June 2007 HK$'000 (Unaudited)	Six months ended 30 June 2006 HK$'000 (Unaudited)
Fees	**–**	–
Salaries and other allowances	**390**	660
Contributions to retirement benefit schemes	**18**	15
	408	675

16. PLEDGE OF ASSETS

At 30 June 2007, the Company pledged the bank deposits of HK$50,000 (At 31 December 2006: HK$50,000) to a bank to secure a corporate credit card account and pledged certain financial assets at fair value through profit or loss with a carrying amount of HK$Nil (At 31 December 2006: HK$255,000) to secure the other borrowing as stated in note 13.

17. ULTIMATE HOLDING COMPANY

In the opinion of the directors of the Company, the parent and the ultimate holding company is Hong Jin Holdings Limited, a company incorporated in the British Virgin Islands in which Mr. Wu Kwai Yung held 70% beneficial interest in this parent and the ultimate holding company.

18. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current period's presentation.