



Sanyuan Group Limited
三元集團有限公司

Stock Code: 0140

08
[Interim Report 2008]

CONTENTS

CORPORATE INFORMATION	2
MANAGEMENT DISCUSSION AND ANALYSIS	3
CONSOLIDATED INCOME STATEMENT	11
CONSOLIDATED BALANCE SHEET	12
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	13
CONDENSED CONSOLIDATED CASH FLOW STATEMENT	14
NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT	15

CORPORATE INFORMATION
BOARD OF DIRECTORS

Executive Directors:

Mr. Wu Kwai Yung (*Chairman*)
Mr. Zhao Tie Liu (*Managing Director*)

Independent Non-executive Directors:

Mr. Zhou Haijun
Mr. Xu Zhi
Mr. Xu Quing Fah
(Appointed on 22 April 2008)

COMPANY SECRETARY

Ms. Ho Suk Yin Nancy
(Appointed on 14 April 2008)

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
Level 28, Three Pacific Place
1 Queen's Road East
Hong Kong

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

OVERVIEW

During the first half of 2008, 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 these adverse conditions, the Group still saw improvements in our operations and financial position during the period under review.

FINANCIAL RESULTS

The 60% owned subsidiary of the Company in Tianjin, the PRC, Tianjin Jinshun Pharmaceutical Co., Ltd. ("Tianjin Jinshun") recorded growth in this period. As a result, consolidated turnover recorded by the Group for the six months ended 30 June 2008 was approximately HK\$93,028,000 representing an increase of approximately 21.9% from HK\$76,302,000 for the six months ended 30 June 2007.

Other revenue dropped by about 79.1% or HK\$2,167,000 for the six months ended 30 June 2008. Other revenue for the current period amounted to HK\$573,000 which mainly came from provision of consultancy advice service. Other income for the period was HK\$Nil (Six months ended 30 June 2007: HK\$1,402,000).

Administrative expenses for the period increased by 10.7% to HK\$5,408,000 (Six months ended 30 June 2007: HK\$4,887,000) mainly because of the increase of legal and consultancy fees on the resumption of the trading of the shares of the Company. For the period, legal fees incurred were HK\$1,418,000 (Six months ended 30 June 2007: HK\$599,000) and consultancy fees incurred were HK\$200,000 (Six months ended 30 June 2007: HK\$36,000).

Finance costs for the period were HK\$2,483,000 (Six months ended 30 June 2007: HK\$1,817,000) representing an increase of 36.7%. The increase was made up mainly of interest expenses on bank borrowings of HK\$554,000 (Six months ended 30 June 2007: HK\$Nil) and an increase in imputed interest of HK\$147,000 on the convertible note (the "Note"). The imputed interest recorded for the period on the Note was HK\$1,929,000 (Six months ended 30 June 2007: HK\$1,782,000).

Unaudited consolidated loss reported for the period was HK\$4,023,000 as compared to a loss of HK\$840,000 during the same period in 2007. The increase of consolidated loss of HK\$3,183,000 was mainly because of the aforementioned factors coupled with an unchange harsh market conditions.

Loss per share for the period was HK0.47 cents (Six months ended 30 June 2007: HK0.16 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 remained stiff within the pharmaceutical industry.

In spite of the adverse circumstances, the Group continued to distribute its existing products and generated approximately HK\$93,028,000 for the first half of 2008 which accounted for 100% of the total turnover of the Group (Six months ended 30 June 2007: 99.6%).

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. As the business was under restructuring, turnover in the first half of 2008 was HK\$Nil and accounted for Nil% (Six months ended 30 June 2007: 0.4%) of the total turnover of the Group.

During the six months ended 30 June 2008, there were no material acquisitions and disposals of subsidiaries and associates.

LIQUIDITY AND FINANCIAL RESOURCES

Total assets of the Group increased to approximately HK\$138,556,000 as at 30 June 2008 (As at 31 December 2007: HK\$68,262,000). Among the total assets, HK\$137,505,000 (As at 31 December 2007: HK\$67,170,000) were current assets including trade and other receivables of HK\$92,968,000 (As at 31 December 2007: HK\$51,125,000), cash and cash equivalents of HK\$32,997,000 (As at 31 December 2007: HK\$9,009,000) and inventories of HK\$11,540,000 (As at 31 December 2007: HK\$7,036,000).

At 30 June 2008, the Group had total liabilities of HK\$155,176,000 (As at 31 December 2007: HK\$82,401,000). Current liabilities of the Group as at the balance sheet date included the principal amount of the Note of HK\$30,000,000 (the carrying amount of which was HK\$26,809,000 (As at 31 December 2007: HK\$24,880,000)) held by the controlling shareholder of the Company. The Note was issued to Hong Jin Holdings Limited ("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 2007, the maturity date of the Note has been further extended by Hong Jin to 31 March 2009. The other current liabilities included mainly bank borrowings of HK\$24,598,000 (As at 31 December 2007: HK\$5,951,000), trade and other payables of HK\$88,572,000 (As at 31 December 2007: HK\$35,688,000) and provisions of HK\$14,964,000 (As at 31 December 2007: HK\$14,964,000) made in previous years for employee benefits and legal claims etc.

Gearing ratio (total liabilities as a percentage of total assets) of the Group decreased to 112% of the current period (As at 31 December 2007: 120.7%). Current ratio of 88.6% as at 30 June 2008 is lower than 31 December 2007 of 116.8%. Should the Note of HK\$30,000,000 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. Cash and cash equivalents were mainly in Renminbi but some lesser sum were 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 2008, certain assets of the Group with aggregate carrying value of approximately HK\$38,615,000 were pledged to secure the Group's borrowings as compared to HK\$6,710,000 as at 31 December 2007.

EMPLOYEE REMUNERATION POLICY AND NUMBER OF EMPLOYEES

As at 30 June 2008, 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 reviewed annually by the Remuneration Committee.

CONTINGENT LIABILITIES

As at 30 June 2008, the Group did not have any significant contingent liabilities.

OUTLOOK

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 improved to 4.5% (Six months ended 30 June 2007: 3.8%) despite of keen competition and stringent government pricing policy. In order to further 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.

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, 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. Xu Zhi and Mr. Xu Quing Fah and 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 statements.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2008 (Six months ended 30 June 2007: 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 2008.

DIRECTORS' INTERESTS IN EQUITY SECURITIES

As at 30 June 2008, 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%
Zeng Zhiliang	54	Nominee	0.0%

Notes:

- (1) The corporate interest is held by Hong Jin, 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 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.

Save as disclosed above, as at 30 June 2008, 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 2008, 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	643,835,616 (Note 1)	67.5%
Hong Jin	176,470,588 (Note 2)	18.5%

Note:

- (1) Hong Jin, 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 upon conversion of the HK\$30 million zero-coupon convertible note. By virtue of SFO, Hong Jin 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 2008, 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.

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, 24 October 2008

CONSOLIDATED INCOME STATEMENT (UNAUDITED)
FOR THE SIX MONTHS ENDED 30 JUNE 2008

	Note	Six months ended 30 June	
		2008 HK\$'000	2007 HK\$'000
Turnover	3	93,028	76,302
Cost of sales		(88,830)	(73,411)
Gross profit		4,198	2,891
Other revenue	4	573	2,740
Other income	4	–	1,402
Selling and distribution costs		(444)	(336)
General and administrative expenses		(5,408)	(4,887)
(Loss)/profit from operations		(1,081)	1,810
Finance costs	5(a)	(2,483)	(1,817)
Loss before taxation	5	(3,564)	(7)
Income tax	6	(459)	(833)
Loss for the period		(4,023)	(840)
Attributable to:			
Equity shareholders of the Company		(4,503)	(1,517)
Minority interests		480	677
		(4,023)	(840)
Dividends	7	–	–
Loss per share	8		
– Basic		(HK0.47 cents)	(HK0.16 cents)
– Diluted		N/A	N/A

The notes on pages 15 to 26 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET (UNAUDITED)

AS AT 30 JUNE 2008

	As at 30 June 2008 HK\$'000 (Unaudited)	As at 31 December 2007 HK\$'000 (Audited)
Non-current assets		
Property, plant and equipment	1,051	1,092
Current assets		
Inventories	11,540	7,036
Trade and other receivables	9 92,968	51,125
Cash and cash equivalents	10 32,997	9,009
	137,505	67,170
Current liabilities		
Trade and other payables	11 88,572	35,688
Bank borrowings	12 24,598	5,951
Convertible note	13 26,809	–
Provisions	14,964	14,964
Tax payable	233	918
	(155,176)	(57,521)
Net current (liabilities)/assets	(17,671)	9,649
Total assets less current liabilities	(16,620)	10,741
Non-current liabilities		
Convertible note	13 –	(24,880)
Net liabilities	(16,620)	(14,139)
Capital and reserves attributable to the equity shareholders of the Company		
Share capital	19,078	19,078
Reserves	(50,043)	(47,082)
	(30,965)	(28,004)
Minority interests	14,345	13,865
Total equity	(16,620)	(14,139)

The notes on pages 15 to 26 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED) FOR THE SIX MONTHS ENDED 30 JUNE 2008

	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	General reserve HK\$'000	Special capital reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Statutory common reserve HK\$'000	Accumulated losses HK\$'000	Total reserves HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
At 1 January 2008	19,078	34,123	5,373	200	22,853	2,055	187	(111,873)	(47,082)	13,865	(14,139)
Exchange differences on translation of financial statements of a subsidiary	-	-	-	-	-	1,542	-	-	1,542	-	1,542
Loss for the period	-	-	-	-	-	-	-	(4,503)	(4,503)	480	(4,023)
Appropriation	-	-	-	-	-	-	102	(102)	-	-	-
At 30 June 2008	<u>19,078</u>	<u>34,123</u>	<u>5,373</u>	<u>200</u>	<u>22,853</u>	<u>3,597</u>	<u>289</u>	<u>(116,478)</u>	<u>(50,043)</u>	<u>14,345</u>	<u>(16,620)</u>
At 1 January 2007	19,078	34,123	4,337	200	22,853	421	88	(114,431)	(52,409)	11,388	(21,943)
Exchange differences on translation of financial statements of a subsidiary	-	-	-	-	-	516	-	-	516	344	860
Loss for the period	-	-	-	-	-	-	-	(1,517)	(1,517)	677	(840)
Capital injection by minority shareholder in a subsidiary	-	-	-	-	-	-	-	-	-	1,539	1,539
Appropriation	-	-	-	-	-	-	86	(86)	-	-	-
At 30 June 2007	<u>19,078</u>	<u>34,123</u>	<u>4,337</u>	<u>200</u>	<u>22,853</u>	<u>937</u>	<u>174</u>	<u>(116,034)</u>	<u>(53,410)</u>	<u>13,948</u>	<u>(20,384)</u>

The notes on pages 15 to 26 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

FOR THE SIX MONTHS ENDED 30 JUNE 2008

	<i>Note</i>	Six months ended 30 June	
		2008	2007
		HK\$'000	HK\$'000
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES		3,809	(7,032)
NET CASH GENERATED FROM INVESTING ACTIVITIES		12	1,251
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES		18,343	(3,947)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		22,164	(9,728)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		7,862	13,230
EFFECT OF FOREIGN CURRENCY TRANSLATION		2,370	791
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<i>10</i>	32,396	4,293

The notes on pages 15 to 26 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2008

1. BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange"), including compliance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issuance on 24 October 2008.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the annual financial statements for the year ended 31 December 2007. These condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"). HKFRSs include all applicable HKFRS, HKAS and related interpretations.

This interim financial report has been prepared in accordance with the same accounting policies adopted in the annual financial statements for the year ended 31 December 2007.

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2008. The board of directors believes that the adoption of these new and revised HKFRSs will not have a material impact on the Group's financial position or result of operations.

The HKFRSs that will be effective or are available for voluntary early adoption in the annual financial statements for the year ending 31 December 2008 may be affected by the issue of additional interpretation(s) or other changes announced by the HKICPA subsequent to the date of issuance of this interim financial report. Therefore the policies that will be applied in the Group's annual financial statements for that period cannot be determined with certainty at the date of issuance of this interim financial report.

The financial information relating to the financial year ended 31 December 2007 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for the financial year but is derived from those financial statements. The statutory financial statements for the year ended 31 December 2007 are available from the Company's registered office. The auditors have expressed a modified opinion on those financial statements in their report dated 28 April 2008 due to the fact that the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern.

In preparing the interim financial report, the directors have considered the future liquidity of the Group in view of its net liabilities position as at 30 June 2008. The Group sustained loss attributable to equity shareholders of the Company of HK\$4,503,000 for the six months ended 30 June 2008 (Six months ended 30 June 2007: HK\$1,517,000). At 30 June 2008, the Group had net current liabilities of HK\$17,671,000 (As at 31 December 2007: net current assets of HK\$9,649,000) and net liabilities of HK\$16,620,000 (As at 31 December 2007: HK\$14,139,000) respectively.

Nevertheless, the interim financial report has 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 the 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 cases with the provisions 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 interim financial report 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 interim financial report.

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 loss before taxation are derived from PRC. Accordingly, no geographical segment information is presented.

3. TURNOVER

	Six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
Sales of pharmaceutical products	93,028	76,023
Laboratory testing service income	–	279
	<u>93,028</u>	<u>76,302</u>

4. OTHER REVENUE AND OTHER INCOME

	Six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
Other revenue		
Interest income	47	1,560
Guarantee income	–	1,107
Subsidy income	–	61
Others	526	12
	<u>573</u>	<u>2,740</u>
Other income		
Impairment loss reversed in respect of trade and other receivables	–	14
Gain on disposal of property, plant and equipment, net	–	86
Realised gain on disposal of financial assets at fair value through profit or loss	–	1,302
	<u>–</u>	<u>1,402</u>

5. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging the following:

	Six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
(a) Finance costs		
Interest expenses on bank borrowings wholly repayable within five years	554	–
Imputed interest on convertible note	1,929	1,782
Other finance charges	–	35
	<u>2,483</u>	<u>1,817</u>
(b) Staff costs (including directors' remuneration)		
Salaries, wages and allowances	1,133	1,542
Retirement benefits scheme contribution	28	46
	<u>1,161</u>	<u>1,588</u>
(c) Other items		
Auditors' remuneration		
– audit services		
current period	–	–
under provision in prior years	–	58
– other services	259	207
	<u>259</u>	<u>265</u>
Cost of inventories	88,830	73,411
Depreciation	134	110
Operating lease charges		
for the leasing of properties	416	559
Net foreign exchange loss	1	112
	<u>1</u>	<u>112</u>

6. INCOME TAX

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

	Six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
Current tax		
Hong Kong	–	–
PRC Enterprise Income Tax	<u>459</u>	<u>833</u>
	<u>459</u>	<u>833</u>

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 ended 30 June 2008 (Six months ended 30 June 2007: 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) 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.

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 subsidiary after 1 January 2008. The Implementation Rules provide for the withholding tax rate to be at 10% unless reduced by treaty.

7. DIVIDENDS

The directors do not recommend any payment of interim dividend for the six months ended 30 June 2008 (Six months ended 30 June 2007: HK\$Nil).

8. LOSS PER SHARE

- (a) **Basic**

The calculation of basic loss per share for the six months ended 30 June 2008 is based on the loss attributable to equity shareholders of the Company of HK\$4,503,000 (Six months ended 30 June 2007: HK\$1,517,000) and the weighted average number of 953,906,963 ordinary shares (As at 30 June 2007: 953,906,963 ordinary shares) in issue during the period.

- (b) **Diluted**

Diluted loss per share for the six months ended 30 June 2008 and 2007 has not been disclosed as the potential ordinary shares outstanding during the periods have an anti-dilutive effect on the basic loss per share for the periods.

9. TRADE AND OTHER RECEIVABLES

	As at 30 June 2008 HK\$'000	As at 31 December 2007 HK\$'000
Trade receivables (Note (a))	60,890	49,094
Less: allowance for doubtful debts	(24)	(24)
	<u>60,866</u>	<u>49,070</u>
Other receivables, deposits and prepayments	26,952	2,055
Due from a minority shareholder of a subsidiary	5,150	–
	<u>92,968</u>	<u>51,125</u>

All of the trade and other receivables other than those for which an impairment allowance has been made are expected to be recovered within one year.

Included in trade receivables is HK\$82,000 (As at 31 December 2007: HK\$266,000) due from a minority shareholder of a subsidiary.

Note:

(a) Ageing analysis

Included in trade and other receivables are trade receivables net of allowance for doubtful debts of HK\$24,000 (As at 31 December 2007: HK\$24,000) with the following ageing analysis as of the balance sheet date:

	As at 30 June 2008 HK\$'000	As at 31 December 2007 HK\$'000
Within 90 days	46,471	40,270
91 days to 180 days	7,093	5,551
181 days to 365 days	7,299	3,246
Over 365 days	3	3
	<u>60,866</u>	<u>49,070</u>

- (b) 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 (As at 31 December 2007: 30 to 180 days). The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.
- (c) Certain trade receivables with an aggregate carrying amounts of approximately HK\$15,862,000 (As at 31 December 2007: HK\$6,029,000) are pledged to banks for bank loans (Note 12(b)) granted to the Group (Note 16).

10. CASH AND CASH EQUIVALENTS

	As at 30 June 2008 HK\$'000	As at 31 December 2007 HK\$'000
Cash at bank and on hand	<u>32,997</u>	<u>9,009</u>
Cash and cash equivalents in the consolidated balance sheet	32,997	9,009
Bank overdraft (<i>Note 12</i>)	(601)	(1,147)
Cash and cash equivalents in the condensed consolidated cash flow statement	<u>32,396</u>	<u>7,862</u>

Certain bank deposits with an aggregate carrying amounts of approximately HK\$22,703,000 (As at 31 December 2007: HK\$631,000) and HK\$50,000 (As at 31 December 2007: HK\$50,000) are pledged to banks for bills payable (*Note 11(b)*) granted to the Group and to secure corporate credit card account of the Group respectively (*Note 16*).

11. TRADE AND OTHER PAYABLES

	As at 30 June 2008 HK\$'000	As at 31 December 2007 HK\$'000
Trade payables (<i>Note (a)</i>)	25,098	17,926
Bills payable, secured (<i>Note (b)</i>)	47,812	1,231
Other payables and accruals	3,275	3,312
Due to directors	5,255	2,921
Due to minority shareholders of a subsidiary	7,132	10,298
	<u>88,572</u>	<u>35,688</u>

All of the trade and other payables (including amounts due to directors and minority shareholders of a subsidiary) are expected to be settled within one year or are repayable on demand.

Note:

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

	As at 30 June 2008 HK\$'000	As at 31 December 2007 HK\$'000
Within 90 days	19,686	16,323
91 days to 180 days	2,490	970
181 days to 365 days	2,541	264
Over 365 days	381	369
	<u>25,098</u>	<u>17,926</u>

- (b) As at 30 June 2008, bills payable are secured by certain bank deposits of the Group with an aggregate carrying amounts of approximately HK\$22,703,000 (As at 31 December 2007: HK\$631,000) (Note 10) and properties of a key management personnel of Tianjin Jinshun and a staff (Note 15(e)).

12. BANK BORROWINGS

	As at 30 June 2008 HK\$'000	As at 31 December 2007 HK\$'000
Bank loans, secured (Note (b))	23,997	4,804
Bank overdraft, unsecured (Note 10)	601	1,147
	24,598	5,951

As at the balance sheet date, the borrowings were repayable as follows:

	As at 30 June 2008 HK\$'000	As at 31 December 2007 HK\$'000
Within one year	24,598	5,951

Note:

- (a) At 30 June 2008, the Group has total banking facilities amounted to HK\$88,110,000 (As at 31 December 2007: HK\$23,787,000) in which HK\$23,997,000 (As at 31 December 2007: HK\$4,804,000) of bank loans and HK\$47,812,000 (As at 31 December 2007: HK\$1,231,000) of bills payable (Note 11) have been utilised.
- (b) Bank loans of HK\$12,646,000 (As at 31 December 2007: HK\$4,804,000) bear interest at rates ranging from 6.57% to 6.75% (As at 31 December 2007: 6.48%) per annum and are secured by certain trade receivables of the Group with an aggregate carrying amounts of approximately HK\$15,862,000 (As at 31 December 2007: HK\$6,029,000) (Note 9(c) and 16).

Bank loan of HK\$11,351,000 (As at 31 December 2007: HK\$Nil) bears interest at 8.21% (As at 31 December 2007: Nil) per annum and is secured by a corporate guarantee from an independent third party of HK\$11,351,000 and repayable on 14 December 2008.

13. 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. 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. On 6 December 2007, Hong Jin had further extended the maturity date of the Note to 31 March 2009. The Note had not been converted during the six months ended 30 June 2008 and 2007.

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 period is as follows:

	As at 30 June 2008 HK\$'000	As at 31 December 2007 HK\$'000
Liability component at 1 January	24,880	26,544
Interest charge	1,929	3,698
Equity component	–	(1,036)
Gain on adjustment of amortised cost of convertible note	–	(4,326)
	<hr/>	<hr/>
Liability component at 30 June 2008/ 31 December 2007	26,809	24,880
	<hr/>	<hr/>
Analysed for reporting purpose as:		
Current liability	26,809	–
Non-current liability	–	24,880
	<hr/>	<hr/>
	26,809	24,880
	<hr/>	<hr/>

14. OPERATING LEASE COMMITMENT**As lessee**

As at the balance sheet date, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	As at 30 June 2008 HK\$'000	As at 31 December 2007 HK\$'000
Within one year	802	717
In the second to fifth year inclusive	524	832
	1,326	1,549

15. MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions disclosed elsewhere in this interim financial report, the Group entered into the following material related party transactions during the period:

Name of party	Nature of transaction	Amount paid to/(received from) the related parties	
		Six months ended 30 June	
		2008 HK\$'000	2007 HK\$'000
Tianjin Shi Yi Yao Company 天津市醫藥公司 (「醫藥公司」)	Sales (Note (i)) Purchases (Note (i))	– –	(22) 389
Tianjin Shi He Xi Qu Bei Fang Dai Yao Fang 天津市河西區北方大藥房 (「北方大藥房」)	Sales (Note (i))	(72)	(205)

Note:

- (i) These transactions were carried out at market prices.
- (b) According to the joint venture agreement ("JV Agreement") dated 28 April 2005 (as supplemented) entered into among the Group, 醫藥公司, 天津國津投資有限公司 (Tianjin Guo Jin Investment Company Limited) ("國津投資") and 北方大藥房, profit generated by Tianjin Jinshun will be shared among the parties based on their respective percentage interest in Tianjin Jinshun. As at the balance sheet date, the Group, 醫藥公司, 國津投資 and 北方大藥房 owned 60%, 5%, 17.5% and 17.5% of the interest of Tianjin Jinshun respectively.

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

Should the profit after taxation of Tianjin Jinshun attributable to the Group fall short of RMB4,200,000 in any of the year during the Guarantee Period, 國津投資 and 北方大藥房 undertake to pay the Group jointly such shortfall in cash before 30 April in the following year.

It is provided in the JV Agreement that profit attributable to 醫藥公司’s 5% equity interest in Tianjin Jinshun for each of the years ended 31 December 2006 and 2005 should not be less than RMB700,000. In case of any shortfall, 醫藥公司 will be compensated by the Group as to 63.2% of such shortfall and jointly by 國津投資 and 北方大藥房 in equal share as to the remaining 36.8% of such shortfall.

The Group recognised a guarantee income from 國津投資 and 北方大藥房 in the amount of HK\$Nil (Six months ended 30 June 2007: HK\$1,107,000) pursuant to the JV Agreement.

- (c) 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 former director of the Company and a former 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. During the period, the wholly-owned subsidiary paid rental expenses to Dr. Wan Kwong Kee of HK\$Nil (Six months ended 30 June 2007: HK\$39,000).
- (d) 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 2008 estimated by Mr. Zhao Geng and Mr. Zhang Wei was HK\$66,000 (Six months ended 30 June 2007: HK\$42,000).
- (e) Properties of Mr. Zhao Geng and Ms. Zhao Wei have been pledged to a bank for bills payable granted to the Group as at 30 June 2008. Ms. Zhao Wei is the younger sister of Mr. Zhao Geng who is the director of Tianjin Jinshun (*Note 11(b)*).
- (f) On 29 March 2007, a wholly-owned subsidiary of the Company, has entered into a sale and purchase agreement with a former staff of the Group, Ms. Wong Shiu King, for the disposal of property, plant and equipment with an aggregate net book values of HK\$95,000 at a consideration of HK\$200,000 and the gain on disposal of HK\$105,000 was recognised in the consolidated income statement for the six months ended 30 June 2007.

- (g) Remuneration for key management personnel of the Group, including amounts paid to the Company's directors is as follows:

	Six months ended 30 June	
	2008 HK\$'000	2007 HK\$'000
Short-term employee benefits	150	390
Post-employment benefits	9	18
	159	408

- (h) The outstanding amounts due from/(to) related parties at the balance sheet date are as follows:

Name of party	As at 30 June 2008 HK\$'000	As at 31 December 2007 HK\$'000
	醫藥公司 (Note (a))	(149)
國津投資 (Note (a))	5,150	(2,938)
北方大藥房 (Note (a) and (b))	(6,902)	(6,931)

Note:

- (a) The amounts are unsecured, interest free and repayable on demand.
- (b) Included amount of HK\$82,000 (As at 31 December 2007: HK\$266,000) in "Trade and other receivables" in the consolidated balance sheet (Note 9).

16. PLEDGE OF ASSETS

As at the balance sheet date, the following assets of the Group are pledged to the banks for the banking facilities and loans granted to the Group:

	As at 30 June 2008 HK\$'000	As at 31 December 2007 HK\$'000
Trade receivables (Note 9(c))	15,862	6,029
Bank deposits (Note 10)	22,753	681
	38,615	6,710