



**SANYUAN GROUP LIMITED**  
**三元集團有限公司**

(Stock Code : 0140)

Interim Report **2009**

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## CORPORATE INFORMATION

### BOARD OF DIRECTORS

#### *Executive Directors:*

Mr. Zhao Tie Liu (*Managing Director*)

Mr. Tso Hon Sai Bosco

(Appointed on 30 March 2009)

Mr. Liu Kwok Leung Paul

(Appointed on 30 March 2009)

Mr. Wu Kwai Yung

(Resigned as Chairman and

Executive Director on 30 March 2009)

#### *Non-executive Director*

Mr. Yim Kai Pung

(Appointed on 30 March 2009

as executive director and re-designated  
as non-executive director

on 21 September 2009)

#### *Independent Non-executive Directors:*

Mr. Wong Ting Kon

(Appointed on 30 March 2009)

Mr. Lim Hung Chun Mike

(Appointed on 21 September 2009)

Mr. Zhou Haijun

(Resigned on 30 March 2009)

Mr. Xu Zhi

(Resigned on 15 July 2009)

Mr. Xu Quing Fah

(Resigned on 15 July 2009)

### COMPANY SECRETARY

Mr. Lau Kin Hon

(Appointed on 1 October 2009)

### PRINCIPAL BANKERS

The Hongkong and Shanghai Banking  
Corporation Limited

Nanyang Commercial Bank

### SOLICITORS

P. C. Woo & Co.

### AUDITORS

Crowe Horwath (HK) CPA Limited

(Formerly known as 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 2009, 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 2009 was approximately HK\$124,029,000 representing an increase of approximately 33.3% from HK\$93,028,000 for the six months ended 30 June 2008.

Other revenue dropped by about 24.8% to HK\$431,000 for the six months ended 30 June 2009. Other income for the period was HK\$5,373,000 being gain on adjustment of amortised cost of convertible note (the "Note") upon extension of its maturity date from 31 March 2009 to 30 September 2010. (Six months ended 30 June 2008: HK\$Nil).

Administrative expenses for the period increased by 127.4% to HK\$12,296,000 (Six months ended 30 June 2008: HK\$5,408,000) 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\$1,610,000 (Six months ended 30 June 2008: HK\$1,418,000) and consultancy fee incurred were HK\$550,000 (Six months ended 30 June 2008: HK\$200,000). In addition, the Company have made provision of HK\$5,000,000 for potential claim of costs in the legal action (Six months ended 30 June 2008: HK\$Nil).

Finance costs for the period were HK\$3,395,000 (Six months ended 30 June 2008: HK\$2,483,000) representing an increase of 36.7%. Finance costs consists of interest expenses on bank borrowings of HK\$1,077,000 (Six months ended 30 June 2008: HK\$554,000) and imputed interest on the Note of HK\$2,292,000 (Six months ended 30 June 2008: HK\$1,929,000) and other finance charges of HK\$26,000 (Six months ended 30 June 2008: HK\$Nil).

Even there is improvement of profit from Tianjin Jinshun, however, due to various factors aforementioned above, the unaudited consolidated loss reported for the period was increased to HK\$4,650,000 as compared to a loss of HK\$4,023,000 during the same period in 2008.

Loss per share for the period was HK0.52 cents (Six months ended 30 June 2008: HK0.47 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\$124,029,000 for the first half of 2009 which accounted for 100% of the total turnover of the Group (Six months ended 30 June 2008: 100%).

### *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 2009 was HK\$Nil and accounted for Nil% (Six months ended 30 June 2008: Nil%) of the total turnover of the Group.

During the six months ended 30 June 2009, there were no material acquisitions and disposals of subsidiaries and associates.

## LIQUIDITY AND FINANCIAL RESOURCES

Total assets of the Group increased to approximately HK\$132,644,000 as at 30 June 2009 (As at 31 December 2008: HK\$117,402,000). Among the total assets, HK\$131,851,000 (As at 31 December 2008: HK\$116,471,000) were current assets including trade and other receivables of HK\$102,360,000 (As at 31 December 2008: HK\$91,712,000), cash and cash equivalents of HK\$16,819,000 (As at 31 December 2008: HK\$12,353,000) and inventories of HK\$12,672,000 (As at 31 December 2008: HK\$12,406,000).

At 30 June 2009, the Group had total liabilities of HK\$146,530,000 (As at 31 December 2008: HK\$129,703,000). Non-current liabilities of the Group as at the financial position date included the principal amount of the Note of HK\$30,000,000 (the carrying amount of which was HK\$22,866,000 (As at 31 December 2008: included in current liabilities of HK\$28,912,000) 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 the period under review, the maturity date of the Note has been further extended by Hong Jin to 30 September 2010. The other current liabilities included mainly bank borrowings of HK\$42,607,000 (As at 31 December 2008: HK\$27,667,000), trade and other payables of HK\$60,865,000 (As at 31 December 2008: HK\$57,945,000) and provisions of HK\$19,850,000 (As at 31 December 2008: HK\$15,028,000) made in current and previous years for employee benefits and legal claims etc.

Gearing ratio (total liabilities as a percentage of total assets) of the Group of the current period is 110.5% (As at 31 December 2008: 110.5%). Current ratio of 106.6% as at 30 June 2009 is higher than that as at 31 December 2008 of 89.8%.

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 bank balances 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 2009, certain assets of the Group with aggregate carrying value of approximately HK\$53,224,000 (As at 31 December 2008: HK\$34,252,000) were pledged to secure the Group's borrowings of HK\$42,607,000 and bills payable of HK\$3,802,000 and certain corporate credit card facilities granted to the Group as at 30 June 2009 respectively.

### **EMPLOYEE REMUNERATION POLICY AND NUMBER OF EMPLOYEES**

As at 30 June 2009, the Group employed 45 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 2009, 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 5.1% (Six months ended 30 June 2008: 4.5%) 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 "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 Hong Kong Stock Exchange ("HKEx") to demonstrate the Company's compliance with Rule 13.24 of the Rules. After reviewing the Company's proposal, the HKEx decided that the proposal was not viable. The Company applied to the Court of First Instance for judicial review against the HKEx's decision to cancel the listing status of the shares of the Company. The Court of First Instance ruled in favour of the Company on 4 June 2008 and quashed the decision of the HKEx. The HKEx appealed against the judgment of the Court of First Instance and the Court of Appeal ruled in favour of the HKEx on 9 July 2009 and overturned the judgment of the Court of First Instance. The Company has applied for leave to appeal against the judgment of the Court of Appeal to the Court of Final Appeal and hearing for leave to appeal to the Court of Final Appeal is fixed on 3 December 2009. During the course of legal proceedings the Company has submitted an enhanced proposal to the HKEx to update and demonstrate the Company's compliance with Rule 13.24 of the Rules, the HKEx had refused to consider the enhanced proposal submitted by the Company. The Company is determined in preserving the listing status of its shares on the HKEx and 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. Wong Ting Kon and Mr. Lim Hung Chun Mike both of them are independent non-executive directors and Mr. Yim Kai Pung who is a non-executive director.

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 2009 (Six months ended 30 June 2008: 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 2009.

## DIRECTORS' INTERESTS IN EQUITY SECURITIES

As at 30 June 2009, 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 2009, 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 <i>(Note 1)</i>	67.5%
Hong Jin	176,470,588 <i>(Note 2)</i>	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 2009, 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.

## CONTINUING BREACH OF LISTING RULES

The Company announced on 16th July 2009 that following the resignations of Mr. Xu Zhi and Mr. Xu Qing Fah both independent non-executive directors of the Company, the Company had only one independent non-executive director and the audit committee of the Company had only one member, namely Mr. Wong Ting Kon. The Company therefore didn't meet the minimum number of independent non-executive directors required under Rule 3.01(1) of the Rules and audit committee requirements under Rule 3.21 of the Rules. Following the appointment of Mr. Lim Hung Chun Mike as independent non-executive director and the re-designation of Mr. Yim Kai Pung as non-executive director and member of audit committee of the Company, the Company has remedied the breach of Rule 3.21 of the Rules, however, the Company is still in continuous breach of Rule 3.01(1) of the Rules, the Company will try its best to appoint appropriate person to fill in the vacancy of independent non-executive director as soon as practicable.

## 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, non-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  
**Tso Hon Sai Bosco**  
*Executive Director*

Hong Kong, 19 November 2009

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

FOR THE SIX MONTHS ENDED 30 JUNE 2009

	<i>Note</i>	<b>Six months ended 30 June</b>	
		<b>2009</b>	2008
		<b>HK\$'000</b>	HK\$'000
<b>Turnover</b>	3	<b>124,029</b>	93,028
Cost of sales		<u><b>(117,737)</b></u>	<u>(88,830)</u>
<b>Gross profit</b>		<b>6,292</b>	4,198
Other revenue	4	<b>431</b>	573
Other income	4	<b>5,373</b>	–
Selling and distribution costs		<b>(664)</b>	(444)
General and administrative expenses		<u><b>(12,296)</b></u>	<u>(5,408)</u>
<b>Loss from operations</b>		<b>(864)</b>	(1,810)
Finance costs	5(a)	<u><b>(3,395)</b></u>	<u>(2,483)</u>
<b>Loss before taxation</b>	5	<b>(4,259)</b>	(3,564)
Income tax	6	<u><b>(391)</b></u>	<u>(459)</u>
<b>Loss for the period</b>		<u><b>(4,650)</b></u>	<u>(4,023)</u>
<b>Other comprehensive income</b>			
Exchange difference arising on translation of foreign operations		<u><b>100</b></u>	<u>1,542</u>
<b>Other comprehensive income for the period</b>		<u><b>100</b></u>	<u>1,542</u>
<b>Total comprehensive income for the period</b>		<u><b>(4,550)</b></u>	<u>(2,481)</u>
<b>Loss for the period attributable to:</b>			
Owners of the Company		<u><b>(4,982)</b></u>	(4,503)
Minority interests		<u><b>332</b></u>	<u>480</u>
		<u><b>(4,650)</b></u>	<u>(4,023)</u>

	<i>Note</i>	<b>Six months ended 30 June</b>	
		<b>2009</b>	2008
		<b>HK\$'000</b>	HK\$'000
<b>Total comprehensive income attributable to:</b>			
Owners of the Company		<b>(4,882)</b>	(2,961)
Minority interests		<b>332</b>	480
		<b><u>(4,550)</u></b>	<u>(2,481)</u>
<b>Dividends</b>	7	<b><u>–</u></b>	<u>–</u>
<b>Loss per share</b>	8		
– Basic		<b><u>(HK0.52 cents)</u></b>	<u>(HK0.47 cents)</u>
– Diluted		<b><u>N/A</u></b>	<u>N/A</u>

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

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2009

	<i>Note</i>	<b>As at 30 June 2009 HK\$'000 (Unaudited)</b>	As at 31 December 2008 HK\$'000 (Audited)
<b>Non-current assets</b>			
Property, plant and equipment		793	931
<b>Current assets</b>			
Inventories		12,672	12,406
Trade and other receivables	9	102,360	91,712
Bank balances and cash	10	16,819	12,353
		<b>131,851</b>	116,471
<b>Current liabilities</b>			
Trade and other payables	11	60,865	57,945
Bank borrowings	12	42,607	27,667
Convertible note	13	–	28,912
Provisions		19,850	15,028
Tax payable		342	151
		<b>123,664</b>	129,703
<b>Net current assets/(liabilities)</b>		<b>8,187</b>	(13,232)
<b>Total assets less current liabilities</b>		<b>8,980</b>	(12,301)
<b>Non-current liabilities</b>			
Convertible note	13	(22,866)	–
<b>Net liabilities</b>		<b>(13,886)</b>	(12,301)
<b>Capital and reserves attributable to the owners of the Company</b>			
Share capital		19,078	19,078
Reserves		(48,994)	(47,077)
		<b>(29,916)</b>	(27,999)
<b>Minority interests</b>		<b>16,030</b>	15,698
<b>Total equity</b>		<b>(13,886)</b>	(12,301)

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 2009

### Attributable to equity holders of the Company

	Share capital	Share premium	Capital reserve	General reserve	Special capital reserve	Exchange fluctuation reserve	Statutory common reserve	Accumulated losses	Total reserves	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2009	19,078	34,123	5,373	200	22,853	2,660	345	(112,631)	(47,077)	15,698	(12,301)
Exchange differences on translation of financial statements of a subsidiary	-	-	-	-	-	100	-	-	100	-	100
Profit for the period	-	-	-	-	-	-	-	(4,982)	(4,982)	332	(4,650)
Total comprehensive income for the period	-	-	-	-	-	100	-	(4,982)	(4,882)	332	(4,550)
Adjustment of amortised cost of convertible note	-	-	2,965	-	-	-	-	-	2,965	-	2,965
At 30 June 2009	19,078	34,123	8,338	200	22,853	2,760	345	(117,613)	(48,994)	16,030	(13,886)
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)	-	-	-
Total comprehensive income for the period	-	-	-	-	-	1,542	102	(4,605)	(2,961)	480	(2,481)
At 30 June 2008	19,078	34,123	5,373	200	22,853	3,597	289	(116,478)	(50,043)	14,345	(16,620)

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 2009

	<i>Note</i>	Six months ended 30 June	
		2009 HK\$'000	2008 HK\$'000
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES		(9,513)	3,809
NET CASH GENERATED FROM INVESTING ACTIVITIES		41	12
NET CASH GENERATED FROM FINANCING ACTIVITIES		<u>13,740</u>	<u>18,343</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		4,268	22,164
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		12,353	7,862
EFFECT OF FOREIGN CURRENCY TRANSLATION		<u>198</u>	<u>2,370</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	10	<u><u>16,819</u></u>	<u><u>32,396</u></u>

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 2009

### 1. BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure requirements of Appendix 6 to 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 19 November 2009.

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 2008. 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.

The auditors have expressed a modified opinion on the financial statements for the financial year ended 31 December 2008 in their report dated 30 April 2009 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 2009. The Group sustained loss attributable to owners of the Company of HK\$4,982,000 for the six months ended 30 June 2009 (Six months ended 30 June 2008: HK\$4,503,000). At 30 June 2009, the Group had net current assets of HK\$8,187,000 (As at 31 December 2008: net current liabilities of HK\$13,232,000) and net liabilities of HK\$13,886,000 (As at 31 December 2008: HK\$12,301,000) 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 financial position 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\$19,850,000 already provided as at the financial position date.

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% owned 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.

The condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2008, except as described below.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning 1 January 2009.

HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
Hong Kong Financial Reporting Standard ("HKFRS") 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Financial Instruments Disclosures – Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) – Interpretation ("Int") 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC) – Int 13	Customer Loyalty Programmes
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendments to HKFRS 5 that is effective for annual periods beginning on or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

HKAS 1 (Revised) has introduced a number of terminology changes, including revised titles for the condensed consolidated financial statements, and has resulted in a number of changes in presentation and disclosure.

HKFRS 8 is a disclosure standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The predecessor standard, HKAS 14 "Segment Reporting", required the identification of two sets of segments (business and geographical) using a risks and returns approach. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14 (see Note 2).

The adoption of the new and revised HKFRSs has had no material effect on the reported results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new or revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRS 5 as part of Improvements to HKFRSs issued in 2008 <sup>1</sup>
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 <sup>2</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>1</sup>
HKAS 39 (Amendment)	Eligible Hedged Items <sup>1</sup>
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters <sup>1</sup>
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions <sup>2</sup>
HKFRS 3 (Revised)	Business Combinations <sup>1</sup>
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners <sup>1</sup>
HK(IFRIC) – Int 18	Transfers of Assets from Customers <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2009

<sup>2</sup> Amendments that are effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2010

<sup>4</sup> Effective for transfers on or after 1 July 2009

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combinations for which the acquisition dates are on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. The directors of the Company anticipate that the application of other new or revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

## 2. SEGMENTAL INFORMATION

The Group has adopted HKFRS 8 "Operating Segments" with effect from 1 January 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (i.e. the board of directors of the Company) in order to allocate resources to the segment and to assess their performance. In contrast, the predecessor standard (HKAS 14 "Segment Reporting") required an entity to identify two sets of segments (business and geographical) using a risks and returns approach, with the entity's system of internal financial reporting to key management personnel serving only as the starting point for the identification of such segments. The application of HKFRS 8 has not resulted in the redesignation of the Group's reportable segments determined in accordance with HKAS 14, nor has the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss.

No separate analysis of financial information by operating segment is presented as the Group's revenue, results, assets and liabilities were all derived from its principal line of business of pharmaceutical and healthcare operation. All of the activities of the Group are based in the People's Republic of China ("PRC") and all of the Group's turnover and loss before taxation are derived from PRC. Accordingly, no further geographical segment information is presented.

## 3. TURNOVER

	Six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
Sales of pharmaceutical products	<b>124,029</b>	93,028

## 4. OTHER REVENUE AND OTHER INCOME

	Six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
<b>Other revenue</b>		
Interest income	44	47
Others	<b>387</b>	526
	<b>431</b>	573
<b>Other income</b>		
Gain on adjustment of amortised cost of convertible note upon extension of maturity date ( <i>Note 13</i> )	<b>5,373</b>	–
	<b>5,373</b>	–

**5. LOSS BEFORE TAXATION**

Loss before taxation is arrived at after charging the following:

	<b>Six months ended 30 June</b>	
	<b>2009</b>	<b>2008</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>(a) Finance costs</b>		
Interest expenses on bank borrowings wholly repayable within five years	1,077	554
Imputed interest on convertible note	2,292	1,929
Other finance charges	26	–
	<u>3,395</u>	<u>2,483</u>
<b>(b) Staff costs (including directors' remuneration)</b>		
Salaries, wages and allowances	1,373	1,133
Retirement benefits scheme contribution	99	28
	<u>1,472</u>	<u>1,161</u>
<b>(c) Other items</b>		
Auditors' remuneration		
– audit services	–	–
– other services	–	259
	–	259
Cost of inventories	117,737	88,830
Depreciation	141	134
Operating lease charges for the leasing of properties	406	416
Net foreign exchange loss	–	1
	<u>118,284</u>	<u>89,640</u>

**6. INCOME TAX**

(a) Income tax represents:

	<b>Six months ended 30 June</b>	
	<b>2009</b>	<b>2008</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Current tax</b>		
Hong Kong	–	–
PRC Enterprise Income Tax	391	459
	<u>391</u>	<u>459</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 2009 (Six months ended 30 June 2008: 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.

**7. DIVIDENDS**

The directors do not recommend any payment of interim dividend for the six months ended 30 June 2009 (Six months ended 30 June 2008: HK\$Nil).

**8. LOSS PER SHARE****(a) Basic**

The calculation of basic loss per share for the six months ended 30 June 2009 is based on the loss attributable to owners of the Company of HK\$4,982,000 (Six months ended 30 June 2008: HK\$4,503,000) and the weighted average number of 953,906,963 ordinary shares (As at 30 June 2008: 953,906,963 ordinary shares) in issue during the period.

**(b) Diluted**

Diluted loss per share for the six months ended 30 June 2009 and 2008 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**

	<b>As at 30 June 2009 HK\$'000</b>	As at 31 December 2008 HK\$'000
Trade receivables ( <i>note (a)</i> )	<b>97,472</b>	88,899
Less: allowance for doubtful debts	<b>(24)</b>	(24)
	<b>97,448</b>	88,875
Other receivables, deposits and prepayments	<b>2,406</b>	1,596
Due from a minority shareholder of a subsidiary	<b>2,506</b>	1,241
	<b>102,360</b>	91,712

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\$213,000 (As at 31 December 2008: HK\$160,000) and HK\$Nil (As at 31 December 2008: HK\$297,000) due from a minority shareholder of a subsidiary and a related company respectively.

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 2008: HK\$24,000) with the following ageing analysis as of the financial position date:

	<b>As at 30 June 2009 HK\$'000</b>	As at 31 December 2008 HK\$'000
Within 90 days	<b>71,000</b>	62,244
91 days to 180 days	<b>17,768</b>	23,321
181 days to 365 days	<b>8,579</b>	2,571
Over 365 days	<b>101</b>	739
	<b>97,448</b>	88,875

- (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 2008: 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\$49,372,000 (As at 31 December 2008: HK\$33,071,000) are pledged to banks for bank loans (*Note 12(b)*) granted to the Group (*Note 17*).

## 10. BANK BALANCES AND CASH

	<b>As at 30 June 2009 HK\$'000</b>	As at 31 December 2008 HK\$'000
Cash at bank and on hand	<b>16,819</b>	12,353

Certain bank deposits with an aggregate carrying amounts of approximately HK\$3,802,000 (As at 31 December 2008: HK\$1,131,000) and HK\$50,000 (As at 31 December 2008: HK\$50,000) are pledged to banks for bills payable (*Note 11(c)*) granted to the Group and to secure corporate credit card account of the Group respectively (*Note 17*).

## 11. TRADE AND OTHER PAYABLES

	<b>As at 30 June 2009 HK\$'000</b>	As at 31 December 2008 HK\$'000
Trade payables ( <i>note (a) &amp; (b)</i> )	<b>39,287</b>	41,598
Bills payable, secured ( <i>note (c)</i> )	<b>3,802</b>	3,527
Other payables and accruals	<b>10,795</b>	6,805
Due to directors	<b>84</b>	–
Due to minority shareholders of a subsidiary	<b>6,897</b>	6,015
	<b>60,865</b>	57,945

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 financial position date:

	<b>As at 30 June 2009 HK\$'000</b>	As at 31 December 2008 HK\$'000
Within 90 days	<b>31,170</b>	33,238
91 days to 180 days	<b>3,238</b>	6,331
181 days to 365 days	<b>4,404</b>	1,408
Over 365 days	<b>475</b>	621
	<b>39,287</b>	41,598

- (b) Included in trade payable is HK\$Nil (As at 31 December 2008: HK\$2,252,000) due to a related company.
- (c) As at 30 June 2009, bills payable are secured by certain bank deposits of the Group with an aggregate carrying amounts of approximately HK\$3,802,000 (As at 31 December 2008: HK\$1,131,000) (*Note 10*) and properties of a key management personnel of Tianjin Jinshun and a staff.

## 12. BANK BORROWINGS

	<b>As at 30 June 2009 HK\$'000</b>	As at 31 December 2008 HK\$'000
Bank loans, secured ( <i>note (b)</i> )	<b>42,607</b>	27,667

As at the financial position date, the borrowings were repayable as follows:

	<b>As at 30 June 2009 HK\$'000</b>	As at 31 December 2008 HK\$'000
Within one year	<b>42,607</b>	27,667

*Note:*

- (a) At 30 June 2009, the Group has total banking facilities amounted to HK\$56,818,000 (As at 31 December 2008: HK\$31,194,000) in which HK\$42,607,000 (As at 31 December 2008: HK\$27,667,000) of bank loans and HK\$3,802,000 (As at 31 December 2008: HK\$3,527,000) of bills payable (*Note 11*) have been utilised.
- (b) Bank loans of HK\$42,607,000 (As at 31 December 2008: HK\$27,667,000) bear interest at rates ranging from 5.31% to 5.35% (As at 31 December 2008: 5.54% to 6.83%) per annum and are secured by certain trade receivables of the Group with an aggregate carrying amounts of approximately HK\$49,372,000 (As at 31 December 2008: HK\$33,071,000) (*Note 9(c) and 17*).

## 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 and a gain on adjustment of amortised cost of convertible note of approximately HK\$4,326,000 was recognised accordingly. Subsequently on 23 April 2009, Hon Jin further extended the maturity date of the Note to 30 September 2010 and a gain on adjustment of amortised cost of convertible note of approximately HK\$5,373,000 was recognised accordingly. The Note had not been converted during the six months ended 30 June 2009 and 2008.

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:

	<b>As at 30 June 2009 HK\$'000</b>	As at 31 December 2008 HK\$'000
Liability component at 1 January	<b>28,912</b>	24,880
Interest charge	<b>2,292</b>	4,032
Equity component	<b>(2,965)</b>	–
Gain on adjustment of amortised cost of convertible note	<b>(5,373)</b>	–
	<hr/>	<hr/>
Liability component at 30 June 2009/ 31 December 2008	<b>22,866</b>	28,912
	<hr/>	<hr/>
Analysed for reporting purpose as:		
Current liability	–	28,912
Non-current liability	<b>22,866</b>	–
	<hr/>	<hr/>
	<b>22,866</b>	28,912
	<hr/>	<hr/>

#### 14. OPERATING LEASE COMMITMENT

##### As lessee

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

	<b>As at 30 June 2009 HK\$'000</b>	As at 31 December 2008 HK\$'000
Within one year	<b>389</b>	625
In the second to fifth year inclusive	–	316
	<hr/>	<hr/>
	<b>389</b>	941
	<hr/>	<hr/>

#### 15. CONTINGENT LIABILITIES

As at the financial position date, the Group did not have any significant contingent liabilities.

**16. 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 received from the related parties Six months ended 30 June	
		2009 HK\$'000	2008 HK\$'000
Tianjin Shi He Xi Qu Bei Fang Dai Yao Fang 天津市河西區北方大醫房	Sales ( <i>Note</i> )	91	72

*Note:*

These transactions were carried out at market prices.

- (b) 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 2009 estimated by Mr. Zhao Geng and Mr. Zhang Wei was HK\$66,000 (Six months ended 30 June 2008: HK\$66,000).
- (c) Remuneration for key management personnel of the Group, including amounts paid to the Company's directors is as follows:

	Six months ended 30 June	
	2009 HK\$'000	2008 HK\$'000
Short-term employee benefits	136	150
Post-employment benefits	—	9
	<b>136</b>	<b>159</b>

- (d) The outstanding amounts due from/(to) related parties at the financial position date are as follows:

	<b>As at 30 June 2009 HK\$'000</b>	As at 31 December 2008 HK\$'000
Trade receivables ( <i>Note (a)</i> )	<b>213</b>	457
Amounts due from a minority shareholder of a subsidiary ( <i>Note (b)</i> )	<b>2,506</b>	1,241
Trade payables ( <i>Note (c)</i> )	–	(2,252)
Amounts due to directors ( <i>Note (b)</i> )	<b>(84)</b>	–
Amounts due to minority shareholders of a subsidiary ( <i>Note (b)</i> )	<b>(6,897)</b>	(6,015)

*Note:*

- (a) The amounts are included in "Trade and other receivables" in the condensed consolidated statement of financial position (*Note 9*).
- (b) The amounts are unsecured, interest free and repayable on demand.
- (c) The amounts are included in "Trade and other payables" in the condensed consolidated statement of financial position (*Note 11(b)*).

## 17. PLEDGE OF ASSETS

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

	<b>As at 30 June 2009 HK\$'000</b>	As at 31 December 2008 HK\$'000
Trade receivables ( <i>Note 9(c)</i> )	<b>49,372</b>	33,071
Bank deposits ( <i>Note 10</i> )	<b>3,852</b>	1,181
	<b>53,224</b>	34,252