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# **SANYUAN GROUP LIMITED**

## **三元集團有限公司**

*(Incorporated in Hong Kong with limited liability)*  
(Stock code: 140)

### **CONNECTED TRANSACTION - A PROPOSAL TO ISSUE HK\$30,000,000 ZERO COUPON CONVERTIBLE NOTE AND VERY SUBSTANTIAL ACQUISITION - FORMATION OF A SINO-FOREIGN JOINT VENTURE IN THE PRC**

On 27th April, 2005, the Company entered into the Subscription Agreement with Hong Jin, pursuant to which the Company has agreed to issue and Hong Jin has agreed to subscribe for the Note in the principal amount of HK\$30 million. RMB18 million (equivalent to approximately HK\$17 million) of the proceeds will be used as capital contribution to the JV Company (as described below) and the remaining sum of approximately HK\$12 million, net of expenses incurred, will be used as working capital of the Group. Details of the Subscription Agreement are set out below.

Upon full Conversion, 176,470,588 new Shares will be allotted and issued to Hong Jin, representing approximately 18.5% of the existing issued share capital of the Company and approximately 15.6% of the issued share capital of the Company as enlarged by the allotment and issuing of the Conversion Shares. The number of Conversion Shares exceeds the number of new Shares that can be issued under general mandate granted to the Directors at the annual general meeting of the Company held on 29th June, 2004. The Directors will seek Independent Shareholders' approval to allot and issue the Conversion Shares at the up-coming EGM.

On 28th April, 2005, Beadle, a wholly-owned subsidiary of the Company, entered into the JV Agreement, as the foreign partner, with the PRC Parties to establish a JV Company in Tianjin, the PRC. Pursuant to the JV Agreement, Beadle will contribute RMB18 million in cash and the PRC Parties will in aggregate contribute RMB12 million by way of injection of net assets of Jin Shun into the JV Company. Immediately after the establishment, the JV Company will be owned as to 60% by Beadle and 40% by the PRC Parties respectively. Details of the JV Agreement are set out below.

Hong Jin is the controlling shareholder of the Company, and the issuing of the Note to Hong Jin therefore constitutes a connected transaction for the Company under the Listing Rules and is subject to the approval by the Independent Shareholders at the EGM. The formation of the JV Company constitutes a very substantial acquisition for the Company under the Listing Rules and is subject to the approval of the Shareholders at the EGM. However, the formation of the JV Company is not conditional on the approval of the issuing of the Note.

A circular containing, among other things, details of the Subscription Agreement, the issuing of the Note, the JV Agreement, the letters from the independent board committee and the independent financial adviser in respect of the Subscription Agreement, the notice of the EGM and other information as required under the Listing Rules will be despatched to the Shareholders as soon as practicable.

On 13th May, 2004, the Company requested to suspend the trading of the Shares on the Stock Exchange pending release of an announcement relating to a subscription of Shares by Hong Jin and the settlement agreement. After the release of the aforesaid announcement, the Share remained suspended as the Stock Exchange considers the Group had insufficient level of operation at that time. According to Rule 13.24 of the Listing Rules, an issuer shall carry out, directly or indirectly, a sufficient level of 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 the issuer's securities. In view of the Company's current financial position, the Company is required to submit to the Stock Exchange proposal that would enable it to demonstrate its compliance with Rule 13.24 of the Listing Rules. The trading of the Shares remains suspended as at the date of this announcement and will remain suspended until further notice.

The Stock Exchange issued an announcement dated 3rd June, 2005 stating that the Company is now in the third stage of the delisting procedures.

## **SUBSCRIPTION AGREEMENT DATED 27TH APRIL, 2005**

The Company entered into the Subscription Agreement with Hong Jin on 27th April, 2005. Pursuant to the Subscription Agreement, the Company has agreed to issue and Hong Jin has agreed to subscribe for the Note in the principal amount of HK\$30 million. Set out below are the principal terms of the Note.

Principal amount: HK\$30,000,000.

Maturity Date: 7th December, 2006, being the initial maturity day which may be extended for a further 12 months by Hong Jin at its sole discretion. In case Hong Jin exercises such discretion, 7th December, 2007 will be deemed as the maturity date accordingly.

The Company will make an announcement as soon as the Subscriber confirms extension of the maturity date.

Coupon: Zero

Conversion: the Note will be mandatory and automatically converted on the latest of (i) the day on which the trading of the Share on the Stock Exchange resumes; (ii) the day on which the Stock Exchange grants listing of and permission to deal in the Conversion Shares (subject to conditions to which neither the Hong Jin nor the Company may reasonably object); or (iii) 1st December, 2005.

If any one of the above conditions has not been fulfilled at maturity of the Note, the Company will have to redeem the Note at principal amount.

Conversion Shares: 176,470,588 new Shares shall be allotted and issued by the Company to Hong Jin upon full Conversion at the initial conversion price. The Conversion Shares shall rank pari passu in all respects with all the Shares then in issue.

Conversion Price: HK\$0.17 per Share, subject to adjustment for, among other matters, subdivision or consolidation of Shares, bonus issues, right issues and other dilutive events.

The Conversion Price represents:

- a premium of approximately 13.3% over the closing price of the Share as quoted on the Stock Exchange of HK\$0.15 on the Last Trading Day;
- a discount of approximately 1.2% to the average closing price of HK\$0.172 per Share for the last 10 consecutive trading days up to and including the Last Trading Day; and
- a discount of approximately 6.6% to the average closing price of HK\$0.182 per Share for the last 30 consecutive trading days up to and including the Last Trading Day.

Transferability: the Note is not transferable or assignable.

Voting: Hong Jin will not be entitled to vote at any meetings of the Company by reason only of it being a holder of the Note.

Listing: No application will be made for the listing of, or permission to deal in, the Note on the Stock Exchange or any other stock exchange, but listing application will be made for the Conversion Shares falling to be allotted and issued pursuant to the Conversion.

### **Condition to the Subscription Agreement**

The Subscription Agreement is conditional on the approval by Independent Shareholders at the EGM. In the event that the aforesaid condition cannot be fulfilled on or before 30th June, 2005 (or such later date as may be agreed between the Company and Hong Jin), the Subscription Agreement shall terminate and none of the parties shall have any claim against the other for any costs or losses (save for any prior breaches of the Subscription Agreement).

On the assumption that the Note is fully converted at the initial Conversion Price, a total of 176,470,588 new Shares will be allotted and issued, representing approximately 18.5% of the existing issued share capital of the Company and approximately 15.6% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares. The number of new Shares to be issued upon full Conversion exceeds the general mandate granted to the Directors at the annual general meeting of the Company held on 29th June, 2004, therefore the Directors will seek Independent Shareholders' approval to allot and issue the Conversion Shares at the up-coming EGM.

Set out below is the Company's (i) existing shareholding structure; (ii) the shareholding structure upon full Conversion at the initial Conversion Price of HK\$0.17:–

	<b>Shareholding structure</b>			
	<b>Existing</b>		<b>After full Conversion at HK\$0.17</b>	
	<i>Number of Shares</i>	<i>%</i>	<i>Number of Shares</i>	<i>%</i>
Hong Jin and its Associates	643,835,616	67.49	820,306,204	72.57
Public Shareholders	310,071,347	32.51	310,071,347	27.43
	<u>953,906,963</u>	<u>100.00</u>	<u>1,130,377,551</u>	<u>100.00</u>

The Stock Exchange has indicated that an approval for the listing of the Conversion Shares upon Conversion, or any new Shares to be issued by the Company by any means is conditional on the Company being able to demonstrate to the satisfaction of the Stock Exchange that it can comply with the requirement of Rule 13.24 of the Listing Rules and, where applicable, other relevant requirements of the Listing Rules.

In addition, the Company confirms that it will not issue any Conversion Shares in the event that such issue would result in the Company's then issued share capital being held by the public falls below 25%.

#### **THE JV AGREEMENT DATED 28TH APRIL, 2005**

##### **Parties:**

The foreign party: Beadle, a company incorporated in the British Virgin Islands with limited liability, a wholly-owned subsidiary of the Company;

- The PRC parties:
- (i) Tianjin Shi Yi Yao Company (天津市醫藥公司) ("Party B"), a company established under the PRC laws, which is principally engaged in wholesale and retail of pharmaceutical products and medical equipment. Party B is wholly owned by Tianjian Municipal Government;
  - (ii) Tianjin Guo Jin Investment Company Limited (天津國津投資有限公司) ("Party C"), a company established under the PRC laws with limited liability, which is principally engaged in property investment and pharmaceutical investment. Party C is owned as to 25% by each of Mr. Niu Fu Wen (牛福文), Mr. Zhao Geng (趙賡), Ms. Miao Hong (繆紅) and Mr. Huang Pu Xuan (黃普選); and
  - (iii) Tianjin Shi He Xi Qu Bei Fang Dai Yao Fang (天津市河西區北方大藥房) ("Party D"), a sole proprietor company incorporated under the PRC laws, which is principally engaged in retail of pharmaceutical products and medical equipment. Party D is wholly owned by Mr. Zhang Wei (張偉).

To the best knowledge, information and belief of the Directors and after making all reasonable enquiries, as at the date of this announcement, the PRC Parties and their ultimate beneficial owners are third parties independent of the Company and its connected persons (as defined under the Listing Rules) and are not connected persons of the Company. Save for being business associates, the PRC Parties are not related to each other.

##### **Scope of business of the JV Company**

According to the terms of the JV Agreement, Beadle and the PRC Parties have agreed to establish the JV Company in Tianjin, the PRC for a term of 30 years commencing from the date of issue of business licence, which is expected to be on or before 30th June, 2005, by relevant PRC authorities to the JV Company. Upon establishment of the JV Company and after successful transfer of certain assets and liabilities from Jin Shun (the particular of which is disclosed in the section below titled "Information on Jin Shun") into the JV Company (as described below in the paragraph headed "Capital contribution"), Jin Shun will cease operation.

As advised by the PRC Parties, they are in the process of applying to the relevant authorities for obtaining of the business licence for the JV Company. The PRC Parties are also preparing for the application for the Good Supply Practice certificate. As at the date of this announcement, the business licence of the JV Company has not yet been granted.

It is agreed between Beadle and the PRC Parties that the JV Company will principally engaged in, among other things, the wholesale and retail of pharmaceutical products in the PRC, development and manufacturing of pharmaceutical products/medical equipment, healthcare services, and investment and management pharmaceutical businesses.

### **Capital contribution**

Pursuant to the JV Agreement, the registered capital of the JV Company will be RMB30 million (equivalent to approximately HK\$28.3 million), in which RMB18 million (approximately HK17.0 million) will be contributed by the Group and an aggregate sum of RMB12 million (equivalent to approximately HK\$11.3 million) by the PRC Parties. All the capital contribution must be made within 10 Business Days after completion of all necessary registration procedures in relation to the establishment of the JV Company. Upon establishment of the JV Company, 60% equity interest in the JV Company will be owned by the Group, 5% by Party B and 17.5% by each of Party C and Party D.

The RMB18 million capital contribution from Beadle will be made by way of cash, which will be financed by the proceeds from the issue of the Note. In the event the issue of the Note is not completed, the Company will consider to raise fund from the controlling shareholder of the Company or other potential investors to finance the capital contribution to the JV Company. In addition, Hong Jin has undertaken to the Company that in the event external funding cannot be obtained to finance the capital contribution, Hong Jin will extend a shareholder's loan of not less than RMB18 million to the Company, which is repayable on demand but in any event not earlier than the second anniversary of the shareholder's loan. The shareholder's loan, if extended to the Group, will bear an interest equivalent to the then prevailing one month fixed deposit rate offered by Hongkong and Shanghai Banking Corporation Limited on its outstanding amount.

The RMB12 million capital contribution from the PRC Parties will be made by way of injection of selected assets and liabilities of Jin Shun, which will principally consist of cash, marketable inventory, account receivables (subject to the Board's review of the repayment history of the debtors) and accounts payables. The Directors cannot ascertain when the selection process will be completed but in any event before the time required effecting the capital contribution under the JV Agreement. The selected assets and liabilities to be injected into the JV Company by the PRC Parties will be subject to verification by a PRC certified public accountant. In the event that the net value of the assets and liabilities of Jin Shun to be contributed by the PRC Parties exceeds RMB12 million, the excess will be treated as an interest bearing shareholders' loan from the PRC Parties to the JV Company. The interest on such shareholders' loan will be calculated at the then prevailing bank lending rate on its outstanding amount until such shareholders' loan is being fully settled. To the best knowledge of the Board, the PRC Parties are in the process of making necessary applications to the relevant authorities for the transfer of the assets of Jin Shun to the JV Company. The timing for completion of such transfer cannot be ascertained as at the date of this announcement, but is expected to be before all the conditions precedent to the JV Agreement are satisfied.

The capital contribution of RMB18 million is the total capital commitment of the Group that the Board currently expects. There is no provision in the JV Agreement that requires the Group or any of the PRC Parties to make further capital contribution to the JV Company. The Board does not expect to make further capital contribution to the JV Company in the foreseeable future. In the event of further capital contribution in the future, such contribution will be made by all the shareholders of the JV Company in proportion to their respective shareholding in the JV Company.

### **Profit sharing**

According to the JV Agreement, profit generated by the JV Company will be shared among the shareholders of the JV Company in accordance with their respective interest in the JV Company.

It is also agreed between the parties to the JV Agreement that the profit after tax of the JV Company for each of the three years starting from the date of establishment of the JV Company ("Guarantee Period") will not be less than RMB7 million and the Group will be entitled to RMB4.2 million in each year, (or on pro rata basis, if less than one year). The guaranteed profit of RMB7 million has been agreed between the Company, Party C and Party D after arm's length negotiations. The guaranteed profit was determined based on the Board's expectation that the return on total asset of the JV Company, which is expected to be about RMB60 million after completion of the capital contribution, should be in the range of 10% to 15% and the return on equity of the JV Company should be in the range of 20% to 25%. The RMB7 million guaranteed profit under the JV Agreement represents a return on total asset of 11.6% and a return on equity of 23.3%.

Should the profit after tax of the JV Company attributable to the Group fall short of RMB4.2 million in any of the year during the Guarantee Period, Party C and Party D undertake to pay the Group jointly such shortfall in cash before 30th April in the following year. The Directors believe Party C and Party D are capable of fulfilling their financial obligation under the JV Agreement given their history in financing the operation of Jin Shun (further details are set out in the paragraph below headed "Information on Jin Shun").

It is provided in the JV Agreement that the profit attributable to Party B's 5% equity interest in the JV Company for each of the year ending 31st December, 2005 and 2006 should not be less than RMB700,000. In case of any shortfall, Party B will be compensated by the Group as to 63.2% of such shortfall, and jointly by Party C and Party D in equal share the remaining 36.8% of such shortfall.

In the event that the Group is required to pay to Party B its portion of such shortfall, the amount receivable by the Group will be less than RMB4.2 million as stated in the paragraph above.

### **Composition of board of directors of the JV Company and the management of the JV Company**

The board of directors of the JV Company will comprise six directors, of which three will be nominated by the Group. One of the three directors to be nominated by the Group will be elected as the chairman of the board of directors of the JV Company. Each of Party C and Party D is entitled to nominate one director. All nominated directors should be appointed by the shareholders of the JV Company. Each of the directors nominated by the Group, Party C and Party D would be entitled to one vote. The JV Company will also appoint an independent director who will not have a voting right. In accordance with the JV Agreement, Party B will have no representative in the board of directors of the JV Company.

It is anticipated that the existing management of Jin Shun will be responsible to the board of the JV Company for the day-to-day operation of the JV Company.

### **Conditions to the JV Agreement**

The JV Agreement is conditional on the followings:

1. the Company having obtained Shareholders' approval for entering into the JV Agreement and to carry out transactions contemplated therein at the EGM;
2. the JV Company having obtained the Good Supply Practice certification, which certifies that the JV Company is in compliance with the guidelines and regulations in effect from time to time pursuant to the Laws of the PRC on Administration of Pharmaceuticals, before completion of all the registration procedures required under the relevant PRC laws for establishment of the JV Company, or any later date as the JV Parties may agree; and
3. the JV Company having obtained the business license of the JV Company on or before 30th June, 2005 or any later date as the JV Parties may agree.

All the above conditions shall be satisfied on or before 30th June, 2005 or any other date as may be agreed between the JV Parties otherwise the JV Agreement will lapse.

### **INFORMATION ON JIN SHUN**

Jin Shun is a business division of Party B established under the PRC laws in 1998. Jin Shun is principally engaged in sale and distribution of pharmaceutical products in the PRC. In September 2003 Party B entered into a co-operation agreement with Party C and Party D to operate the business division of Party B under the name of Jin Shun. Pursuant to the co-operation agreement, Party B is only responsible for the administration of Jin Shun, in particular, in procuring Jin Shun to comply with all the requirements of Good Supply Practice stipulated by the PRC authorities. In return, Party B receives a fixed fee annually but is not entitled to the profit of Jin Shun. Party C and Party D are responsible for all the financial resources required by Jin Shun and the day-to-day operation of Jin Shun. Party C and Party D are also entitled to the profit generated by Jin Shun in portion to their respective interests in Jin Shun. Such arrangement will be replaced by the new profit sharing arrangement under the JV Agreement upon establishment of the JV Company.

Jin Shun has been carrying on its business of sales and distribution of pharmaceutical products principally in Tianjin, Beijing and neighbouring cities. The principal products of Jin Shun are chemical drugs including, prescription drugs and over-the-counter drugs. The major customers of Jin Shun include general and specialist hospitals as well as large pharmaceutical distributors in Tianjin, Beijing and neighbouring cities. According to the management accounts provided by the management of Jin Shun and prepared based on the generally accepted accounting principles of the PRC, Jin Shun recorded an unaudited turnover of approximately RMB32,160,000 and unaudited net loss of RMB701 for the 4-month ended 31st December, 2003; and an unaudited turnover of approximately RMB129,357,000 and unaudited net profit of approximately RMB305,000 for the year ended 31st December, 2004. As at 31st December, 2004, the unaudited net asset of Jin Shun was zero.

It is the intention of the PRC Parties to expand the operation scale of Jin Shun in terms of product mix and geographical coverage. In view of the Group's capability to access to the capital market and its strength in research and development in the healthcare products and its business connection with research institutes and biotechnology companies in the PRC and abroad, the PRC Parties consider injection of the pharmaceutical sale and distribution business that Jin Shun is now carrying on into the JV Company could realise their expansion plan to achieve the economy of scale which they consider is beneficial to them.

## **BACKGROUND OF AND REASONS FOR ISSUING OF THE NOTE AND THE FORMATION OF THE JV COMPANY**

Currently, the Group is principally engaged in pharmaceutical/healthcare business and property investment. At present, the Group does not hold any investment property, however, it is the Board's intention to continue the property investment business when appropriate investment opportunities arise. For the two years ended 31st December, 2003 and 2004, the Company recorded an audited consolidated turnover of HK\$1.4 million and HK\$1.2 million respectively. For the two years ended 31st December, 2003 and 2004, the Group recorded an audited consolidated profit of approximately HK\$96.2 million and HK\$217.5 million respectively. As mentioned in the management discussion and analysis section of the Company's annual report for the year ended 31st December, 2003, the audited consolidated net profit of approximately HK\$96.2 million was mainly attributable to: (i) the write back of provision made in respect of corporate guarantees provided to creditor banks; (ii) the reversal of losses of subsidiaries (which had ceased operations in 2001) on deconsolidation; (iii) guarantee income from a minority shareholder of a subsidiary; and (iv) the gain on disposal of properties and other non-core assets. It was mentioned in the management discussion and analysis section of the Company's annual report for the year ended 31st December, 2004, the audited consolidated net profit of approximately HK\$217.5 million was mainly attributable to: (i) effective cost cutting measures; (ii) gain on disposal of subsidiaries; (iii) gain on discharge of bank and other indebtedness and (iv) decrease in finance costs. Despite the profit recorded in 2003 and 2004, the Group still recorded an audited net liability of approximately HK\$308.9 million as at 31st December, 2003 and an audited consolidated net liability of HK\$47.9 million as at 31st December, 2004.

Although the Group still had a net capital deficiency, the Group's financial position had been substantially improved by the debt restructuring agreements entered into by the Group and various creditors which in aggregate reduced the indebtedness by approximately HK\$231.87 million payable by the Group, and the subscription of 643,835,616 Shares by Hong Jin for a sum of HK\$47 million. The subscription of 643,835,616 Shares by Hong Jin is the only fund raising activity carried out by the Group in the 12 months preceding the date of the Subscription Agreement. Of the total subscription money of HK\$47 million, (i) HK\$7 million was used to repay the indebtedness owed by the Company to Mr. Wu Kwai Yung; (ii) approximately HK\$36 million was used for settlement of bank loans and amount due to a finance company; and (iii) the remaining balance of approximately HK\$4 million was used as the Group's general working capital.

As the debt restructuring and the subscription both completed in 2004, the Group is now in a much better position to raise funding for the operations and development of the Group. For further details of the debt restructuring and the subscription, please refer to the Company's announcement dated 22nd July, 2004.

To restore the Group's financial position, the proposed issuing of the Note provides the Group with the necessary funding to finance the formation of the JV Company which otherwise cannot be achieved based on the Group's existing financial position. The issue of the Note also provides the Group with additional working capital of approximately HK\$12 million. The Directors (including the independent non-executive Directors) consider the terms of the Subscription Agreement and the Note are fair and reasonable as far as the Independent Shareholders are concerned and is in the interest of the Company and the Shareholders as a whole.

The principal targets of the Group's business are property and pharmaceutical/health care. Currently, GenePro Medical Biotechnology Ltd ("GenePro") is the healthcare/pharmaceutical arm of the Company. GenePro engages in product developments that include clinical diagnostic kits and health supplements, as well as in the provision of clinical laboratory services. Being a sales and distributor in pharmaceuticals, the JV Company will assist GenePro to market its products and services in the PRC. In return, GenePro will assist the JV Company to introduce from abroad advanced products and services, and/or to market drugs abroad. Moreover, the Company will help the JV Company to realize the latter's goals in future expansion by accessing the capital market. As it is now, GenePro is limited to Hong Kong and the JV Company is limited to Beijing and Tianjin. Therefore, the combined force of the JV Company and GenePro represents a synergy in the pharmaceutical/healthcare business of the Group.

In view of the above, the Directors (including the independent non-executive Directors) consider the formation of the JV Company not only is synergistic to the Group but also is beneficial to the Company and the Shareholders as a whole.

## **EXTRAORDINARY GENERAL MEETING**

The issue of the Note to Hong Jin constitutes a connected transaction of the Company under the Listing Rules and is subject to the Independent Shareholders' vote taken by poll at the EGM. An independent committee of the Board consisting all the independent non-executive directors of the Company will be appointed to give recommendation to the Shareholders in respect of the Subscription. An independent financial adviser will be appointed to advise the independent board committee and the Independent Shareholders on the Subscription. Hong Jin and its Associates holding 67.49% interest in the Company will abstain from voting for the relevant resolution in relation to the Subscription at the EGM. The formation of the JV Company constitutes a very substantial acquisition of the Company under the Listing Rules, the entering into of the JV Agreement is therefore subject to, among other things, the approval by the Shareholders at the EGM. Hong Jin and its Associates will also abstain from voting at the EGM regarding the formation of the JV Company. A circular containing, among other things, details of the Subscription Agreement, the Note, the JV Agreement, the letters from the independent board committee and the independent financial adviser in respect of the Subscription Agreement, the notice of the EGM and other information as required under the Listing Rules will be despatched to the Shareholders as soon as practicable.

## **SUSPENSION OF TRADING IN THE SHARES**

On 13th May, 2004, the Company requested to suspend the trading of the Shares on the Stock Exchange pending release of an announcement relating to a subscription of Shares by Hong Jin and the settlement agreement. After the release of the aforesaid announcement, the Shares remained suspended as the Stock Exchange considers the Group had insufficient level of operation at that time. According to Rule 13.24 of the Listing Rules, an issuer shall carry out, directly or indirectly, a sufficient level of 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 the issuer's securities. In view of the Company's current financial position, the Company is required to submit to the Stock Exchange proposal that would enable it to demonstrate its compliance with Rule 13.24 of the Listing Rules. The Stock Exchange issued an announcement dated 3rd June, 2005 stating that the Company is now in the third stage of the delisting procedures. The Company will have the final six months until 2nd December, 2005 to submit a viable resumption proposal to the Stock Exchange. If the Company does not submit a viable resumption proposal as required, the Stock Exchange intends to cancel the listing of the Company on the expiry of the six months period from 3rd June, 2005.

The trading of the Shares remains suspended as at the date of this announcement and will remain suspended until further notice.

## **TERMS USED IN THIS ANNOUNCEMENT**

“Associates”	has the meaning ascribed thereto under the Listing Rules
“Beadle”	Beadle International Limited, a company incorporated in the British Virgin Islands with limited liability and is a wholly-owned subsidiary of the Company
“Board”	the board of Directors
“Business Day”	any day (other than Saturday and Sunday) on which banks in Hong Kong are generally open for normal banking business
“Company”	Sanyuan Group Limited, a company incorporated in Hong Kong with limited liability whose shares are listed on the Stock Exchange
“Conversion”	The conversion of the Note by Hong Jin in accordance with the terms of the Note
“Conversion Price”	HK\$0.17 per Share, subject to adjustment, in accordance with the terms of the Note
“Conversion Shares”	176,470,588 new Shares falling to be issued upon full Conversion at the initial conversion price of HK\$0.17 per Share, subject to adjustment
“Director(s)”	the director(s) of the Company
“EGM”	an extraordinary general meeting of the Shareholders to be convened and held to consider and, if thought fit, to approve the transactions contemplated under the Subscription Agreement and the JV Agreement
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Jin”	Hong Jin Holdings Limited, the subscriber of the Note, the controlling shareholder of the Company

“Independent Shareholders”	Shareholders, other than Hong Jin and its Associates
“Jin Shun”	Tianjin Shi Yi Yao Company Jin Shun Branch Company, a business division of a state-owned enterprise, Tianjin Shi Yi Yao Company, established under the PRC laws
“JV Agreement”	the joint venture agreement entered into between the JV Parties on 28th April, 2005 relating to the formation of the JV Company
“JV Company”	Tianjin Jinshun Pharmaceutical Company Limited (天津津順醫藥有限責任公司), a sino-foreign equity joint venture to be established under the PRC laws in Tianjin, the PRC
“JV Parties”	Beadle and the PRC Parties
“Last Trading Day”	12th May, 2004, being the last trading day of the Shares on the Stock Exchange immediately prior to the current suspension of trading
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Note”	the zero coupon mandatory convertible note, to be issued by the Company to Hong Jin in the principal amount of HK\$30,000,000 which is convertible into Conversion Shares at an initial conversion price of HK\$0.17 per Share, subject to adjustment
“Party B”	Tianjin Shi Yi Yao Company (天津市醫藥公司)
“Party C”	Tianjin Guo Jin Investment Company Limited (天津國津投資有限公司)
“Party D”	Tianjin Shi He Xi Qu Bei Fang Dai Yao Fang (天津市河西區北方大藥房)
“PRC”	The People’s Republic of China
“PRC Parties”	Party B, Party C and Party D, all being parties to the JV Agreement, which will own 5%, 17.5% and 17.5% of the interest of the JV Company respectively
“Share(s)”	share of HK\$0.02 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Agreement”	the agreement dated 27th April, 2005 entered into between Hong Jin and the Company relating to the subscription of the Note by Hong Jin
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	Per cent

All amounts in RMB have been translated into HK\$ at the rate of HK\$1.0 = RMB1.06 in this announcement for illustration purpose only.

By Order of the Board of  
**Sanyuan Group Limited**  
**Zhao Tie Liu**  
*Managing Director*

Hong Kong, 3rd June, 2005

*As at the date of this announcement, the Board comprises 6 Directors: Mr. Wu Kwai Yung, Mr. Zhao Tie Liu and, Dr. Wan Kwong Kee are the executive Director; Messrs. Zhou Haijun, Ng Wai Hung and Mr. Xu Zhi are the independent Non-executive Directors.*

Please also refer to the published version of this announcement in China Daily.