THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Sanyuan Group Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders of Sanyuan Group Limited

AMS Corporate Finance Limited

A letter from the Board is set out on pages 4 to 17 of this circular.

A letter from the Independent Board Committee is set out on page 18 of this circular. A letter from AMS, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, is set out on pages 19 to 33 of this circular.

A notice for convening the EGM to be held at 10:30 a.m. on Monday, 5th September, 2005 at Michelangelo, 2/F, Langham Hotel, Hong Kong, 8 Peking Road, Tsimshatsui, Kowloon, Hong Kong is set out on pages 127 to 128 of this circular. The proxy form for use at the EGM is enclosed. Whether or not you are able to attend the meeting, you are required to complete the accompanying proxy form for use at the meeting in accordance with the terms printed in it and return the completed form to the share registrars and transfer office of Sanyuan Group Limited – Secretaries Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, at least 48 hours before the meeting. After completing and returning the proxy form, you may come to the meeting if you wish to.

19th August, 2005

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In this circular, the following expressions have the following meanings unless the context requires otherwise:

"AMS"	AMS Corporate Finance Limited, a corporation licensed under the SFO to carry on type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement
"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 Company to be held for the Independent Shareholders to consider the approval of the transactions contemplated under the Subscription Agreement and for the Shareholders to consider the approval of the transactions contemplated under the JV Agreement
"Enlarged Group"	the Company and its subsidiaries after completion of both the Subscription Agreement and the JV Agreement, including the JV Company

"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 and the controlling shareholder of the Company, which holds 67.49% of the issued share capital of the Company as at the Latest Practicable Date
"Independent Board Committee"	a committee of independent Directors
"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 Tianjin Shi Yi Yao Company, which is a state-owned enterprise established under the PRC laws
"JV Agreement"	the joint venture agreement entered into between Beadle and the PRC Parties on 28th April, 2005 (as supplemented by agreements dated 30th June, 2005 and 17th August, 2005 respectively) relating to the establishment of the JV Company
"JV Company"	a Sino-Foreign equity joint venture to be established under the PRC laws in Tianjin, the PRC, to be traded as (subject to registration) Tianjin Jinshun Pharmaceutical Company Limited (天津津順醫藥有限責任公司)
"JV Parties"	Beadle and the PRC Parties
"Last Trading Day"	12th May, 2004, being the last trading day of Shares on the Stock Exchange immediately prior to the current suspension of trading
"Latest Practicable Date"	17th August, 2005, being the latest practicable day prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
"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 and subscribed by Hong Jin pursuant to the Subscription Agreement 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 in the JV Agreement, each will own 5.0%, 17.5% and 17.5% of the interest of the JV Company respectively
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	share(s) of HK$0.02 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription Agreement"	the agreement dated 27th April, 2005 entered into between Hong Jin and the Company (as supplemented by an agreement dated 30th June, 2005) relating to the subscription of the Note by Hong Jin
"HK$"	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 = RMB1.04 (unless otherwise stated) in this circular for illustration purpose only.

SANYUAN GROUP LIMITED
三元集團有限公司

(Incorporated in Hong Kong with limited liability)

Executive Directors:
Wu Kwai Yung
Zhao Tie Liu
Wan Kwong Kee

Independent Non-executive Directors:
Zhou Haijun
Ng Wai Hung
Xu Zhi

Registered office:
Suite 1429, 14th Floor
Ocean Centre
5 Canton Road
Tsimshatsui, Kowloon
Hong Kong

19th August, 2005

To the Shareholders

Dear Sir or Madam,

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

I. INTRODUCTION

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$30.0 million. About HK$17.3 million (RMB18.0 million) of the proceeds will be used as capital contribution to the JV Company (as described below) and the remaining sum of approximately HK$11.7 million, after netting off expenses of approximately HK$1.0 million, will be used as working capital of the Group. Issuing 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.

On 28th April, 2005, Beadle, a wholly-owned subsidiary of the Company, entered into the JV Agreement, as the foreign party, with the PRC Parties, as the Chinese (Sino) parties, to establish the JV Company in Tianjin, the PRC. Pursuant to the JV Agreement, Beadle will contribute RMB18.0 million in cash and the PRC Parties will in aggregate contribute RMB12.0 million by transferring certain assets and liabilities and all employees from Jin Shun into the JV Company. Immediately after the establishment of the JV Company, 60% and 40% of the JV Company will be owned by Beadle and the PRC Parties respectively. The establishment 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, taken by poll, at the EGM.

The purpose of this circular is to provide you with, among other things:

(i) details of the Subscription Agreement;

(ii) details of the issuing of the Note;

(iii) details of the JV Agreement;

(iv) the letter from the Independent Board Committee in respect of the Subscription Agreement;

(v) the letter from AMS, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Subscription Agreement; and

(vi) the notice of the EGM and other information as required under the Listing Rules.

II. SUBSCRIPTION AGREEMENT

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$30.0 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 date 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 Hong Jin confirms the extension of the maturity date.
Coupon:	Zero
Conversion:	The Note will be mandatory and automatically converted either on (i) the day on which the trading of the Shares 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) 1st December, 2005, whichever comes last. 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 will be allotted by the Company and issued to Hong Jin upon full Conversion at the initial Conversion Price. The Conversion Shares will 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 HK$0.15 per Share as quoted on the Stock Exchange 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 because it is 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 to the Stock Exchange for the Conversion Shares falling to be allotted and issued pursuant to the Conversion.

Use of proceeds

Out of the proceeds of HK$30.0 million, approximately HK$17.3 million (approximately RMB18.0 million) will be used as capital contribution to the JV Company. The remaining HK$11.7 million, after netting off HK$1.0 million expenses, will be used as general working capital of the Group. In the event the JV Company cannot be established, the HK$17.3 million will be retained by the Company for investment purpose when appropriate opportunities arise in the future.

Condition of the Subscription Agreement

The Subscription Agreement is conditional on the approval by Independent Shareholders at the EGM. In the event that the EGM is not held on or before 30th September, 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 issuing of the Conversion Shares. The Directors will seek Independent Shareholders' approval to allot and issue the Conversion Shares at the EGM.

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

	Shareholding structure			
	(i) Existing		**(ii) Upon full Conversion at HK$0.17**	
	Number of Shares	*%*	*Number of Shares*	*%*
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
	953,906,963	100.00	1,130,377,551	100.00

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 falling below 25%.

III. THE JV AGREEMENT

Parties

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, is principally engaged in wholesale and retail of pharmaceutical products and medical equipment. Party B is wholly owned by the Tianjin 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, 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, is principally engaged in retail of pharmaceutical products and medical equipment. Party D is wholly owned by Mr. Zhang Wei (張偉).

As at the Latest Practicable Date, the Directors believe, after making all reasonable enquiries, the PRC Parties and their ultimate beneficial owners are not connected persons (as defined under the Listing Rules) 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 a business licence, which is expected to be on or before 30th September, 2005, by relevant PRC authorities to the JV Company. Further terms of the JV Company upon the expiry of the 30 years term will be mutually agreed by Beadle and the PRC Parties.

Upon establishment of the JV Company, certain assets and liabilities and all employees (currently there are 36 in total) of Jin Shun (the particulars of which are disclosed in the section below titled "Information on Jin Shun") will be transferred into the JV Company. Details of the transfer of assets and liabilities are described below in the paragraph titled "Capital contribution". After successful transfer of the assets, liabilities and employees as mentioned above, the JV Company will continue to carry on the business of Jin Shun and Jin Shun will cease operation.

At present, Jin Shun has 89 customers comprising hospitals and distributors and 15 of them are secured by sales contracts with Jin Shun. These sales contracts will expire on 31st December, 2005. The existing management of Jin Shun has approached all of the customers with sales contracts who have not indicated any objection to continue its business by novation of existing contracts with Jin Shun to the JV Company after establishment of the JV Company. Formal novation agreements will be entered into between Jin Shun, the JV Company and these customers of Jin Shun after establishment of the JV Company. Notwithstanding the above, it is uncertain as to whether all existing customers of Jin Shun will be successfully transferred to the JV Company.

As advised by the PRC Parties, they are now applying to the relevant authorities for the business licence of the JV Company. The PRC Parties are preparing the application for the Good Supply Practice certificate. Under the PRC Laws, the JV Company is allowed to conduct, among other businesses, wholesale and retail of pharmaceutical products and medical equipment in the PRC for approximately four months without a Good Supply Practice certificate, failing which, the JV Company will be required to cease its operation immediately. It is expected that the Good Supply Practice certificate will be granted to the JV Company within three months from the date of establishment of the JV Company. As at the Latest Practicable Date, the business licence of the JV Company and Good Supply Practice certificate have not yet been granted.

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

Capital contribution

Pursuant to the JV Agreement, the registered capital of the JV Company will be RMB30.0 million (equivalent to approximately HK$28.8 million), in which RMB18.0 million (approximately HK$17.3 million) will be contributed by the Group and the remaining sum of RMB12.0 million (equivalent to approximately HK$11.5 million) by the PRC Parties. Out of the RMB18.0 million to be contributed by Beadle, RMB8.0 million will be made within 10 Business Days after completion of all necessary registration procedure in relation to the establishment of the JV Company. The remaining RMB10.0 million will be made within 10 Business Days after granting of the Good Supply Practice certificate to the JV Company by relevant PRC authorities. The RMB12.0 million to be contributed by the PRC Parties will also be made within 10 Business Days after completion of all necessary registration procedure 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 RMB18.0 million capital contribution from Beadle will be made by way of cash, which will be financed by the proceeds from the issuing of the Note. In the event that the issuing of the Note is not completed, the Company will consider to raise fund from Hong Jin or other potential investors to finance the capital contribution to the JV Company. In addition, Hong Jin has undertaken to the Company that if external funding cannot be obtained to finance the capital contribution, Hong Jin will extend a shareholder's loan of not less than RMB18.0 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 by Hong Jin, will bear an interest equivalent to the then prevailing one month fixed deposit rate offered by The Hongkong and Shanghai Banking Corporation Limited on its outstanding amount. Further announcement will be made as required under the Listing Rules in effect from time to time should Hong Jin extend such shareholder's loan to the Company.

The RMB12.0 million capital contribution from the PRC Parties will be made by transferring all assets (except for fixed assets which largely comprise of leasehold improvements) and all liabilities (except for the long term loans from related parties and the loan from a related party) of Jin Shun into the JV Company within 10 Business Days after completion of all necessary registration procedure in relation to the establishment of the JV Company. As the JV Company intends to open its own offices, it will not use the existing office of Jin Shun. The Board considers that the exclusion of Jin Shun's fixed assets from assets being transferred into the JV Company will not have a significant impact on future business of the JV Company.

As at 30th April, 2005, Jin Shun had total assets of approximately HK$45,149,000 and total liabilities of approximately HK$45,124,000. If fixed assets of approximately HK$181,000 and long-term loans from related parties and a loan from a related party of approximately HK$9,602,000 in aggregate were excluded, total assets and total liabilities of Jin Shun as at 30th April, 2005 would be approximately HK$44,968,000 and approximately HK$35,522,000 respectively. All assets and liabilities of Jin Shun to be transferred to the JV Company will be assessed by a PRC certified public accountant, in conjunction with the management of the Group, for suitability of transfer to the JV Company. In particular, receivables and inventories will be assessed in the context of recoverability and obsolescence respectively. The JV Parties agree that doubtful receivables and obsolete inventories will not be transferred to the JV Company. The exact amount of assets and liabilities to be transferred to the JV Company will be verified by a PRC certified public accountant.

As Jin Shun is still carrying on business, the amounts of its assets and liabilities will change from time to time, the exact amount of the assets and liabilities to be transferred to the JV Company by the PRC Parties as at the date of establishment of the JV Company therefore cannot be ascertained as at the Latest Practicable Date. In the event that the net value of the assets and liabilities of Jin Shun to be contributed by the PRC Parties falls short of RMB12.0 million, such shortfall will be satisfied by cash of equivalent amount. If the net value of the assets and liabilities of Jin Shun to be contributed by the PRC Parties exceeds RMB12.0 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 applying to the relevant authorities for transferring the assets and liabilities of Jin Shun to the JV Company. The timing for completion of such transfer cannot be ascertained as at the Latest Practicable Date but is expected to be before the obtaining of the business licence for the JV Company.

The capital contribution of RMB18.0 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 JV 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 JV Parties in proportion to their respective percentage interest in the JV Company.

Profit sharing

According to the JV Agreement, profit generated by the JV Company will be shared among the JV Parties based on their respective percentage interest in the JV Company.

It is also agreed between the JV Parties that profit after tax of the JV Company for each of the first three years starting from the date of establishment of the JV Company ("Guarantee Period") will not be less than RMB7.0 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 RMB7.0 million has been agreed between the Company, Party C and Party D after negotiations at arm's length. The guaranteed profit, based on the return on total asset of the JV Company (which is expected to be about RMB60.0 million after completion of the capital contribution), should be 10% to 15% and the return on equity of the JV Company should be 20% to 25%. The calculated RMB7.0 million guaranteed profit under the JV Agreement represents a 11.6% return on total asset and a 23.3% return on equity.

Should the profit after tax of the JV Company payable 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 obligations under the JV Agreement as demonstrated by their history of financing the operation of Jin Shun by way of loans, which were recorded by Jin Shun as loans from related parties.

It is provided in the JV Agreement that 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 as to 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 board of directors of the JV Company will 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 following:

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 certificate within 3 months after the establishment of the JV Company (as supplemented) or any later date as the JV Parties may agree, 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; and

3. the JV Company having obtained the business license of the JV Company on or before 30th September, 2005 or any later date as the JV Parties may agree.

All the above conditions (except condition 2 which is expected to be satisfied on or before 31st December, 2005) shall be satisfied on or before 30th September, 2005 or any other date as may be agreed between the JV Parties otherwise the JV Agreement will lapse. The JV Parties do not intend to waive any of the above conditions. Prior approval from the Independent Shareholders will be obtained in the event that any of above conditions is to be waived.

IV. 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 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 an annual fee 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. Each of Party C and Party D is entitled to 50% of the profit generated by 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 major products of Jin Shun are chemical drugs including, prescription drugs and over-the-counter drugs. According to the information provided by the management of Jin Shun, Jin Shun is now selling about 500 to 800 pharmaceutical products. Most of the products are not subject to seasonality and can be dosed all year round, therefore the seasonality effect is not apparent. The customers of Jin Shun include general and specialist hospitals as well as large pharmaceutical distributors in Tianjin, Beijing and neighbouring cities. Jin Shun recorded an audited turnover of approximately HK$29,592,000 and audited net profit of approximately HK$104,000 for the four months ended 31st December, 2003; and an audited turnover of approximately HK$113,241,000 and audited net loss of approximately HK$54,000 for the year ended 31st December, 2004. As at 31st December, 2004, the audited net assets of Jin Shun were approximately HK$50,000. The above figures, being extracted from the accountants' report of Jin Shun as set out in Appendix II to this circular, are for reference only and may not be indicative of the scale of operation of the JV Company upon its commencement of business.

The Board is optimistic that, with the additional capital, the JV Company can leverage on Jin Shun's business connection and clientele to expand its scale of operation in terms of its product mix and geographical coverage to areas beyond Tianjin, Beijing and neighbouring cities and achieve a greater turnover. No concrete plan as to the geographical coverage or product mix has been finalised. It is also the intention of the Board to (i) streamline the sale and the distribution network of the JV Company in order to reduce the number of intermediaries within its distribution channel to minimise distribution costs; (ii) direct more of its sales and marketing effort and resources in the hospital sector, which normally offers a higher profit margin; and (iii) focus on sale and distribution of products with higher profit margin. The Board is discussing with the existing management of Jin Shun on the business strategies of the JV Company.

It is the intention of the PRC Parties to expand the scale of Jin Shun in terms of product mix and geographical coverage. In view of the Group's capability to access 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 that 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 economy of scale which they consider beneficial to them.

V. BACKGROUND OF AND REASONS FOR ISSUING OF THE NOTE AND THE FORMATION OF THE JV COMPANY

Currently, the Group targets on pharmaceutical/healthcare and property investment. At present, the Group does not hold any investment property, however, it is the Board's intention to invest in properties when opportunities arise. In the two years ended 31st December, 2004, the Company recorded an audited consolidated turnover of HK$1.4 million and HK$1.2 million respectively. However, in the two years ended 31st December, 2004, the Group recorded an audited consolidated profit of approximately HK$96.2 million and HK$217.5 million respectively. 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. 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. Detailed reasons behind these profits were mentioned in the management discussion and analysis section of the Company's annual reports. Despite the profits recorded in 2003 and 2004, the Group still recorded an audited net liability of approximately HK$308.9 million at 31st December, 2003 and an audited consolidated net liability of HK$47.9 million at 31st December, 2004.

Although the Group still has a net capital deficiency, the Group's financial position has been substantially improved by the debt restructuring agreements entered into by the Group and various creditors which in aggregate reduced the indebtedness of the Group by approximately HK$231.9 million, and the subscription of 643,835,616 Shares by Hong Jin for a sum of HK$47.0 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$47.0 million, HK$7.0 million was used to repay the indebtedness owed by the Company to Mr. Wu Kwai Yung, approximately HK$36.0 million was used for the settlement of bank loans and an amount due to a finance company and the remaining balance of approximately HK$4.0 million was used as the Group's general working capital.

As the debt restructuring and the subscription of Shares by Hong Jin were both completed in 2004, the Group is now in a favorable position to raise funds for the operations and development of the Group. For further details of the debt restructuring and the subscription, please refer to the Company's circular dated 12th August, 2004.

As a first step to strengthen the Group's financial position, the proposed issuing of the Note provides the Group with the necessary funding to finance the establishment of the JV Company (approximately HK$17.3 million) and with additional working capital (approximately HK$11.7 million). The Directors (including the Independent Non-executive Directors) consider that the terms of the Subscription Agreement and the Note are fair and reasonable so far as the Independent Shareholders are concerned, and it is also in the interest of the Company and all Shareholders as a whole.

The principal targets of the Group's business are property and pharmaceutical/healthcare. 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 realise the latter's goals in future expansion by accessing the capital market. As it is now, GenePro is limited to Hong Kong and Jin Shun is limited to Beijing and Tianjin. Therefore, the combined force of Jin Shun 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 investment in the JV Company is a major and essential step towards building a pharmaceutical/ healthcare enterprise in the PRC and abroad. It is therefore beneficial to the Company and all Shareholders as a whole.

VI. EFFECTS OF THE SUBSCRIPTION AND THE ESTABLISHMENT OF THE JV COMPANY ON THE GROUP

Net liabilities of the Group

After completion of the Subscription Agreement and establishment of the JV Company, the Group will remain in a net liability position. On a pro forma basis, the net liabilities of the Group will be increased by HK$970,000 representing the net balance of estimated issuance cost of the Note of HK$1.0 million and the share of results of Jin Shun since 1st September, 2003 as if the Group had held 60% of equity interest in Jin Shun.

Earnings

After establishment of the JV Company, the Company will own 60% interest in the JV Company and therefore the profit generated by the JV Company will be consolidated into the accounts of the Group. According to the JV Agreement, profit after tax of the JV Company for the first three years commencing from the establishment of the JV Company will not be less than RMB7.0 million. The profit attributable to the Group will not be less than RMB4.2 million, subject to the adjustment for payment to Party B. Save for the profit guarantee of RMB4.2 million under the JV Agreement, the effect of the establishment of the JV Company on the earnings of the Group cannot be ascertained at present.

Gearing ratio

The effect on the gearing ratio (total liabilities as a percentage of total assets) of the Group after completion of both the Subscription and the establishment of the JV Company cannot be ascertained at present as the composition of the capital contribution by the PRC Parties to the JV Company, which will comprise selected assets (cash, marketable inventory, account receivables) and liabilities (i.e. account payables) of Jin Shun, is yet to be determined. On the pro forma basis, the gearing ratio of the Enlarged Group as at 31st December, 2004 was 152.3% compared to 1,856.9% of the Group as at 31st December, 2004.

VII. EXTRAORDINARY GENERAL MEETING

The issuing of the Note to Hong Jin constitutes a connected transaction of the Company under the Listing Rules because Hong Jin and its Associates hold 67.49% of the issued share capital of the Company. It requires the Independent Shareholders' approval (vote taken by poll) at the EGM. The Independent Board Committee consisting of all independent non-executive Directors has been constituted to give recommendation to the Independent Shareholders regarding the Subscription Agreement. AMS is appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders on the Subscription Agreement.

Since Hong Jin and its Associates hold 67.49% interest in the Company, they will abstain from voting in relation to the Subscription Agreement at the EGM.

Furthermore, the establishment of the JV Company constitutes a very substantial acquisition of the Company under the Listing Rules. The JV Agreement is therefore subject to, among other things, the approval by the Shareholders, taken by poll, at the EGM. Hong Jin and its Associates will also abstain from voting at the EGM regarding the formation of the JV Company.

Set out on pages 127 to 128 in this circular is a notice of the EGM, which will be held at 10:30 a.m. on Monday, 5th September, 2005 at Michelangelo, 2/F, Langham Hotel, Hong Kong, 8 Peking Road, Tsimshatsui, Kowloon, Hong Kong during which resolutions will be proposed for approval regarding the issuing of the Note, the establishment of the JV Company and other things. A proxy form for use by the Shareholders at the EGM is enclosed. Whether or not you are able to attend the EGM in person, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the completed form to the share registrar of the Company, Secretaries Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, as soon as possible and in any event, not later than 48 hours before the time appointed for holding such meeting or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof (as the case may be) should you so wish.

VIII. PROCEDURE FOR DEMANDING A POLL

Pursuant to article 74 of the Articles of Association of the Company, the ordinary resolutions put to vote of the EGM shall be decided on a show of hands, unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded:

(i) by the chairman of the EGM; or

(ii) by at least three Shareholders present in person or by proxy for the time being entitled to vote at the EGM; or

(iii) by any Shareholder or Shareholders present in person or by proxy and representing not less than one tenth of the total voting rights of all the Shareholders having the right to vote at the EGM; or

(iv) by a Shareholder or Shareholders present in person or by proxy and holding Shares conferring a right to vote at the EGM being Shares on which an aggregate sum has been paid up equal to not less than one tenth of the total sum paid up on all the Shares conferring that right.

IX. RECOMMENDATIONS

The Directors consider the issuing of the Note and the establishment of the JV Company are in the interest of the Company and the Shareholders as a whole, and the terms and conditions of the Subscription Agreement and the JV Agreement are fair and reasonable. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM which are set out in the notice of the EGM on pages 127 to 128 of this circular.

X. SUSPENSION OF TRADING IN THE SHARES

On 13th May, 2004, the Company voluntarily requested to suspend the trading of the Shares on the Stock Exchange pending the release of an announcement relating to a subscription of Shares by Hong Jin and a settlement agreement. After the release of the aforesaid announcement, the Shares remained suspended as the Stock Exchange considers the Group had an 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. The Stock Exchange issued an announcement on 3rd June, 2005 stating that the Company is 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. Even after completion of the Subscription Agreement and the establishment of the JV Company, the Company is required to submit to the Stock Exchange a proposal that would demonstrate its compliance with Rule 13.24 of the Listing Rules. If the Company does not submit a viable resumption proposal acceptable to the Stock Exchange, the Stock Exchange intends to cancel the listing of the Company when the six months expire.

The trading of the Shares remains suspended as at the Latest Practicable Date and will remain suspended until further notice.

XI. GENERAL

Your attention is also drawn to the additional information set out in the Appendices to this circular.

Yours faithfully,
for and on behalf of the Board
Sanyuan Group Limited
Wu Kwai Yung
Chairman

SANYUAN GROUP LIMITED
三元集團有限公司

(Incorporated in Hong Kong with limited liability)

19th August, 2005

To the Independent Shareholders

Dear Sir or Madam,

As the Independent Board Committee, we have been appointed to advise you in connection with the Subscription Agreement, details of which are set out in the "Letter from the Board" contained in the circular to the Shareholders dated 19th August, 2005 (the "Circular"), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

Having considered the terms of the Subscription Agreement and the advice of AMS in relation thereto as set out on pages 19 to 33 of the Circular, we are of the opinion that the issue of the Note is in the interest of the Company and its shareholders as a whole and the terms of which are fair and reasonable. We therefore recommend that you vote in favour of the resolution to be proposed at the EGM to approve the Subscription Agreement.

Yours faithfully.
Independent Board Committee
Zhou Haijun **Ng Wai Hung** **Xu Zhi**

The following is the full text of the letter of advice from AMS in respect of the Subscription Agreement prepared for the purpose of inclusion in this circular.

博資財務顧問有限公司
AMS Corporate Finance Limited

20th Floor
Hong Kong Diamond Exchange Building
8-10 Duddell Street
Central, Hong Kong

19 August 2005

To the Independent Board Committee and the Independent Shareholders of Sanyuan Group Limited

Dear Sirs,

CONNECTED TRANSACTION –
PROPOSED ISSUE OF THE CONVERTIBLE NOTE

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Subscription Agreement, details of which have been set out in the circular to the Shareholders dated 19 August 2005 (the "Circular"), of which this letter forms part. This letter contains our advice to the Independent Board Committee and the Independent Shareholders in respect of the Subscription Agreement. Unless the context otherwise requires, terms used in this letter have the same meanings as those defined in the Circular.

The Board announced that on 27 April 2005, the Company entered into the Subscription Agreement with Hong Jin and 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. Hong Jin is the controlling shareholder of the Company and is therefore a connected person of the Company under the Listing Rules. Accordingly, the issue of the Note constitutes a connected transaction under Chapter 14A of the Listing Rules.

The Subscription Agreement is subject to the approval of the Independent Shareholders at a general meeting of the Company under Chapter 14A of the Listing Rules. An Independent Board Committee has been formed to advise the Independent Shareholders as to (i) whether or not the terms of the Subscription Agreement are fair and reasonable; (ii) whether the issue of the Note is in the interests of the Company and its shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the resolution to approve the Subscription Agreement. We have been appointed to advise the Independent Board Committee and the Independent Shareholders as to (i) whether or not the terms of the Subscription Agreement are fair and reasonable; (ii) whether the issue of the Note is in the interests of the Company and its shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the resolution to approve the Subscription Agreement.

In formulating our opinion, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Company and the Directors. We have assumed that all information, representations and opinions contained or referred to in the Circular which have been provided by the Directors and for which they are solely responsible, are true and accurate at the time they were made and continue to be so at the date hereof. We consider that we have reviewed sufficient information which enables us to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any facts or circumstances, which would render the information provided and the representations made to us untrue, inaccurate or misleading. The Directors have further confirmed, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts or representation the omission of which would make any statement in the Circular, including this letter, misleading. We have not, however, conducted any independent verification of the information provided, nor have we carried out any in-depth investigation into the business and affairs of the Group and any of its associates or the markets in which they operate.

PRINCIPAL FACTORS CONSIDERED

In formulating our opinion regarding the issue of the Note, we have taken into consideration the following principal factors:

1. Background information of the Group

As stated in the letter from the Board, the Group is mainly engaged in pharmaceutical/healthcare businesses, and property investment. However, it should be noted that all of the Group's investment in properties had been disposed of during 2001 to 2003 to repay borrowings. Through GenePro, the Group is currently engaged in (i) the research and development of DNA technology for the molecular diagnosis of diseases, which included cancer, hepatitis and sexually transmitted diseases; and (ii) the provision of market-driven testing services for human identification, viral and bacterial infections, and bio-remediation, in the Group's laboratory in Shatin, Hong Kong. As at the Latest Practicable Date, the operation of the laboratory in Shatin was the only remaining business conducted by the Group and the Group did not have any real properties on hand.

As disclosed in the Company's 2003 annual report that owing to the liquidity problem faced with the Group, the Group was unable to repay the principal and interest of its borrowings from financial institutions when they fell due. As a result, the entire amount of such borrowings and accrued interest totaling approximately HK$256.9 million as at 31 December 2003 became due and repayable immediately. According to the circular of the Company dated 12 August 2004, in July 2004 Hong Jin subscribed for 643,835,616 Shares at HK$0.073 each to raise an aggregate amount of approximately HK$47.0 million in cash, of which approximately HK$36.0 million would be applied towards the repayment of the loans due and payable by certain members of the Group to the financial institutions. As a result of repayment of such loans, the financial institutions agreed to waive the Group's outstanding borrowings and approximately HK$229.9 million of the Group's borrowings as at 31 May 2004 had been settled and fully released. Despite the Group still had net liabilities after the completion of the subscription and the debt restructuring, the Group's net liabilities dropped significantly from approximately HK$308.9 million as at 31 December 2003 to approximately HK$47.9 million as at 31 December 2004.

The Group had been incurring audited net losses for seven consecutive years since 1996. Despite the fact that the Company returned to profit in the most recent two financial years, such profit was mainly a result of gain of approximately HK$217.4 million recorded on discharge of bank borrowings and other indebtedness for the year ended 31 December 2004 and write-back of provisions under corporate guarantees upon release of guarantees by the bank creditors of approximately HK$108.3 million for the year ended 31 December 2003 and the Group still had a negative cashflow from its operations of approximately HK$10.4 million for the year ended 31 December 2004. As at 31 December 2004, the Group had audited net current liabilities of approximately HK$48.6 million and has been operating in a tight liquidity position.

Furthermore, it should also be noted that trading of the Shares on the Stock Exchange has been suspended for over a year since 13 May 2004. Under 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. The Stock Exchange has issued an announcement on 3 June 2005 stating that effective from 3 June 2005, the Company was put into the third stage of the delisting procedures in accordance with Practice Note 17 to the Listing Rules and the Company is required to submit to the Stock Exchange a viable resumption proposal that would enable it to demonstrate its compliance with Rule 13.24 of the Listing Rules 10 business days before the end of the sixth months from 3 June 2005, i.e. on or before 21 November 2005. The Stock Exchange has also indicated that if the Company is unable to submit a viable resumption proposal as required, it intends to cancel the listing of the Company on the expiry of the six-month period from 3 June 2005. Resumption of trading in securities of the Company will only be permitted where it is able to demonstrate a sufficient level of operations or has assets of sufficient value to comply with Rule 13.24 of the Listing Rules. Shareholders should beware of the risk of continued suspension of trading and the possible delisting of the Shares on the Stock Exchange and should closely monitor any changes to the Company's operations as announced by the Company from time to time.

2. Reasons for the issue of the Note

The Group will raise a principal amount of HK$30 million upon issue of the Note to Hong Jin. It is intended that RMB18 million (approximately HK$17.3 million) of the proceeds from the issue of the Note will be used as capital contribution to the JV Company and the remaining sum after netting off the expenses of approximately HK$1.0 million, which amounts to approximately HK$11.7 million, will be used as working capital of the Group. In the event that the JV Company cannot be established, the amount of approximately HK$17.3 million which is intended to be used as capital contribution to the JV Company will be retained by the Company for investment purpose when appropriate opportunities arise in the future. As stated in the letter from the Board, in order to restore the Group's financial position, the proposed issue of the Note provides the Group with the necessary funding of RMB18 million (approximately HK$17.3 million) to finance the establishment of the JV Company. In addition, the issue of the Note also provides the Group with additional working capital of approximately HK$11.7 million. The Directors consider that the Subscription Agreement and the issue of the Note are in the interests of the Company and the Shareholders as a whole and the terms of which are fair and reasonable as far as the Independent Shareholders are concerned.

As stated in the letter from the Board, under the JV Agreement, the parties 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 30 September 2005. The Directors have been advised by the PRC Parties that they are applying to the relevant authorities for the business licence of the JV Company and are also preparing the application for the Good Supply Practice certificate. As stated in the letter from the Board, under the PRC Laws, the JV Company is allowed to conduct, among other businesses, wholesale and retail of pharmaceutical products and medical equipment in the PRC for approximately four months without a Good Supply Practice certificate. In the event that the JV Company fails to obtain the Good Supply Practice certificate within the aforesaid time, it will be required to cease its operation. As at the Latest Practicable Date, the business licence of the JV Company and Good Supply Practice certificate have not yet been granted. The Directors currently expect that the Good Supply Practice certificate will be granted to the JV Company within three months from the date of the establishment of the JV Company.

As stated in the letter from the Board, it is agreed between the JV Parties that the JV Company will be principally engaged in, among other things, the wholesale and retail of pharmaceutical products and medical equipment in the PRC, development and manufacture of pharmaceutical products/medical equipment, provision of healthcare services, and investment and management of pharmaceutical businesses. Upon establishment of the JV Company, all assets (except for fixed assets which largely comprise of leasehold improvements) and liabilities (except for the long term loans from related parties and the loan from a related party) of Jin Shun and all the employees from Jin Shun will be transferred to the JV Company and Jin Shun will eventually cease operation. The exact amount of the assets and liabilities to be transferred into the JV Company will be verified by a PRC certified public accountant and therefore cannot be ascertained as at the Latest Practicable Date.

Jin Shun has been carrying on the business of sales and distribution of pharmaceutical products principally in Tianjin, Beijing and neighbouring cities. The principal products of Jin Shun are chemical drugs manufactured domestically in the PRC, 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. Through GenePro, the Group is currently engaged in the development of clinical diagnostic kits and health supplements, as well as the provision of clinical laboratory services in Hong Kong and GenePro currently does not sell any products in the PRC. The Directors are of the view that the JV Company, being a sales and distributor in pharmaceutical products, 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. As the existing business of GenePro and Jin Shun is confined to Hong Kong and the PRC respectively, the Directors consider that the combined force of the JV Company and GenePro would provide a synergy to further develop the pharmaceutical/healthcare business of the Group. Since the establishment of the JV Company is not conditional on the issue of the Note, we have not provided an analysis on the terms of the JV Agreement in this letter. Shareholders are advised to read the background of the JV Company and detailed terms of the JV Agreement set out in the letter from the Board before considering on how to vote in respect of the JV Agreement. As the JV Company will carry on all the existing business of Jin Shun, Shareholders should also read the historical financial information of Jin Shun which is contained in the accountants' report of Jin Shun set out in appendix II to the Circular for reference though it may not be indicative of the future performance of the JV Company.

On the basis that the principal objective for issue of the Note is to fund the capital commitment for the establishment of the JV Company, which is in line with the Group's existing business, we consider that the issue of the Note is in the interests of the Company and its Shareholders as a whole.

Given the current financial positions of the Group, the Directors consider it difficult for the Group to raise any capital from independent parties, such as securing additional bank loan, to finance its operations. In view of the past operating results and the prolonged suspension of trading of the Shares, which have been discussed in the paragraph headed "Background information of the Group" above, we concur that it would be very difficult, if not impossible, for the Group to obtain new credit facilities or consider other means of equity financing, such as share placement or rights issue or open offer to raise HK$30 million as under the issue of the Note. Given the limited scale of operations as reflected by the historical turnover of the Group, we are of the view that it is necessary and vital for the Group to restore its operations so as to warrant a continued listing of the Shares. We consider that the issue of the Note in order to fund the capital contribution for the establishment of the JV Company, which is in line with the Group's existing business, provides the Group with an opportunity to develop and expand its existing operations with a view to satisfying the requirements under Rule 13.24 of the Listing Rules. In view of the positive business outlook on the PRC market in general, details of which are set out in the paragraph headed "Overview of the PRC market and pharmaceutical industry" below, we believe that the broadening of the revenue base of the Group by the establishment of the JV Company, which will be funded by the proceeds from the issue of the Note, is in the interest of the Company and its shareholders as a whole. The funds to be raised from the issue of Note will, on one hand, strengthen the capital base of the Company for maintaining its existing business operations and, on the other hand, allow the Group to expand on new business opportunities through the JV Company. It should be noted that the issue of the Note and the establishment of the JV Company are not inter-conditional on each other. In the event that the JV Company is not approved by the Shareholders or the JV Company is required to cease operation, the financial position of the Group will still be strengthened by the addition of capital from the issue of the Note after completion of the Subscription Agreement.

Shareholders are also advised to note that even after completion of the Subscription Agreement and the establishment of the JV Company, the Company is required to submit to the Stock Exchange a proposal that would enable it to demonstrate its compliance with Rule 13.24 of the Listing Rules. If the Company does not submit a viable resumption proposal acceptable to the Stock Exchange on or before 21 November 2005, the Stock Exchange intends to cancel the listing of the Company.

3. Overview of the PRC market and pharmaceutical industry

According to the 2004 China Statistical Yearbook, from 1993 to 2003, China's gross domestic product ("GDP") has grown from approximately RMB3,463.4 billion (approximately HK$3,267.4 billion) to approximately RMB11,725.2 billion (approximately HK$11,061.5 billion), representing a threefold increase since 1993 and a growth of approximately 11.5% from the GDP of approximately RMB10,517.2 billion (approximately HK$9,921.9 billion) of 2002. Furthermore, based on the news released by Asian Development Bank ("ADB") on 6 April 2005 which was posted on the official website of ADB, ADB forecasted that GDP of China would achieve an annual growth of 8.5%, 8.7% and 8.9% for 2005, 2006 and 2007, respectively.

Based on the 2004 China Statistical Yearbook, the annual per capita disposable income of the PRC city residents grew from approximately RMB4,283 (approximately HK$4,041) to RMB8,472 (approximately HK$7,992) from 1995 till 2003, representing an average annual growth rate of approximately 12%. As China has been experiencing a continuous and steady economic growth over the years and with rising personal income and spending power of the general public and improving living standard in China, people are becoming more health-conscious and are more willing to spend on medical service and pharmaceutical products.

According to the analysis published on the official website of Medicine Economic (中國醫藥經濟信息網), in the first quarter of 2005, total output for pharmaceutical industry amounted to approximately RMB36,129,000,000, representing a growth of approximately 19.7% from the same period last year while sales revenue derived from China's pharmaceutical industry reached approximately RMB88,343,000,000, representing a growth of approximately 20% from the same period last year.

According to the 2004 China Statistical Yearbook, the total population in China was approximately 1.29 billion at the year end of 2003 with an average annual growth rate of approximately 1% over the years from 1990 to 2003. China represents a huge consumer market with enormous potential by its sheer size alone. In addition, China has been facing the problem of aging population since the introduction of one-child policy in the 1970's. Based on the information published on the website of Chinainfo (中國科技信息) maintained by Institute of Scientific and Technical Information of China (中國科學技術信息研究所), in 2000, the number of people of age over 60 in China was about 130,000,000, accounting for approximately 10% of the total population in China in 2000 and people of such age group in China has been growing and is expected to reach 160,000,000 in 2005, accounting for approximately 11.5% of the total population in China in 2005. Furthermore, in 2000 the total and average spending on pharmaceutical products of old aged people in China was RMB50,100,000,000 and RMB385 per person respectively and based on its estimation, the total and average spending on pharmaceutical products of old aged people in China will reach RMB99,200,000,000 and RMB620 per person respectively in 2005. Given the aging of population in China coupled with the constant growth of the total population and improvement in spending power of the Chinese residents, we believe that the demand for pharmaceutical products in China remains promising in the future.

4. Terms of the Subscription Agreement

We set out below the principal terms of the Note:

Issuer:	The Company
Principal amount:	HK$30,000,000
Maturity date:	7 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, 7 December 2007 will be deemed as the maturity date accordingly.
Interest:	Zero interest

Conversion:	The Note will be mandatory and automatically converted either on (i) the day on which the trading of the Shares 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 any one of the above conditions has not been fulfilled on maturity of the Note, the Company will have to redeem the Note at the principal amount.
Conversion Price:	HK$0.17 per Share, subject to adjustment for, among others, subdivision or consolidation of Shares, bonus issues, rights issues and other dilutive events.
Conversion Shares:	176,470,588 new Shares will be allotted and issued by the Company to Hong Jin upon full Conversion at the initial Conversion Price. The Conversion Shares will rank pari passu in all respects with all the Shares then in issue.
Transferability:	The Note is neither transferable nor assignable.
Voting:	Hong Jin will not be entitled to vote at any meetings of the Company by reason of being a holder of the Note only.
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 to the Stock Exchange for the Conversion Shares falling to be allotted and issued pursuant to the Conversion.

In order to assess the fairness and reasonableness of the principal terms of the Note, we have identified, to our best knowledge, all those companies listed on the main board of the Stock Exchange which have announced issues of convertible notes/bonds denominated in Hong Kong dollars and, (where applicable) approved by its relevant shareholders since 1 January 2005 up to the date of the Subscription Agreement (the "Comparables"). As the terms of a convertible note/bond are usually determined by reference to prevailing market condition, we consider that such time frame is appropriate for the purposes of our comparison which would also provide a reasonable number of comparables. Details of our findings on the Comparables are summarized in the table below:

Name of listed issuer *(Stock code)*	Date of announcement *(dd/mm/yy)*	Principal amount *(HK$ million)*	Interest rate *(per annum)*	Maturity *(Number of years from the date of issue of the convertible note/bond)*	Premium/(discount) of the conversion price over/to the closing price per share on the last trading day prior to the relevant announcement ("Last Day") *(%)*	Premium/(discount) of the conversion price over/to the average closing price per share for the ten trading days up to and including the Last Day ("10-day Price") *(%)*
Capital Estate Limited (193)	05/01/05	36.4	2%	1.5 years	(9.68)	17.65
Cheung Tai Hong Holdings Limited (199)	20/04/05	1,000	Nil	5 years	8.6	3.8
China Sci-Tech Holdings Limited (985)	03/02/05	60	3%	3 years	20.7 *(Note 1)*	22.8 *(Note 2)*
China United International Holdings Limited (273)	12/01/05	200	Nil	5 years	17.92	17.37
Chinese Estates Holdings Limited (127)	10/03/05	2,000	Nil	5 years	10.83	23.04
Get Nice Holdings Limited (64)	22/02/05	200.0	3%	3 years	22.34 *(Note 3)*	51.02 *(Note 4)*
Heritage International Holdings Limited (412)	25/01/05	150	Nil	5 years	19.05	13.9
HKR International Limited (480)	30/03/05	1,410	Nil	5 years	28.71	27.20

Name of listed issuer *(Stock code)*	Date of announcement *(dd/mm/yy)*	Principal amount *(HK$ million)*	Interest rate *(per annum)*	Maturity *(Number of years from the date of issue of the convertible note/bond)*	Premium/(discount) of the conversion price over/to the closing price per share on the last trading day prior to the relevant announcement ("Last Day") *(%)*	Premium/(discount) of the conversion price over/to the average closing price per share for the ten trading days up to and including the Last Day ("10-day Price") *(%)*
Hon Po Group (Lobster King) Limited (228)	21/02/05	40	Nil	2 years	(69.70)	(70.37)
Kerry Properties Limited (683)	11/03/05	2,500	Nil	5 years	33.44	38.83
New City (Beijing) Development Limited (456)	21/02/05	12	3%	2 years *(Note 5)*	13.2	14.3
Nippon Asia Investments Holdings Limited (603)	17/02/05	40	1%	1 year	0	0
Orient Industries Holdings Limited (353)	15/04/05	33	Nil	2 years	(52)	(64.4)
Premium Land Limited (164)	06/01/05	31.2	3%	6 months	(28.57)	(9.09)
Shanghai Zendai Property Limited (755)	02/02/05	80	5% *(Note 6)*	3 years	(4)	(0.4)
Unity Investments Holdings Limited (913)	20/05/05	20	5%	5 years	19.05	(4.76)

Name of listed issuer *(Stock code)*	Date of announcement *(dd/mm/yy)*	Principal amount *(HK$ million)*	Interest rate *(per annum)*	Maturity *(Number of years from the date of issue of the convertible note/bond)*	Premium/ (discount) of the conversion price over/to the closing price per share on the last trading day prior to the relevant announcement ("Last Day") *(%)*	Premium/ (discount) of the conversion price over/to the average closing price per share for the ten trading days up to and including the Last Day ("10-day Price") *(%)*
Wang On Group Limited (1222)	07/02/05	61.44	1%	3 years	14.29	18.8
Wonson International Holdings Limited ("Wonson") (651)	05/01/05	50	3%	1 year	252.11	517.3
The Company (140)	03/06/05	30	Nil	Around 2 years *(Note 7)*	13.3	(1.2)

Source:www.hkec.com.hk (website of the Stock Exchange)

Notes:

1. The conversion price for the convertible notes during (i) the first year; (ii) the second year; and (iii) the third year till the maturity represents a premium of approximately 3.5%, 20.7% and 37.9%, respectively, over the closing price per share on the Last Day. The average of such premiums is approximately 20.7%.

2. The conversion price for the convertible notes during (i) the first year; (ii) the second year; and (iii) the third year till the maturity represents a premium of approximately 5.3%, 22.8% and 40.4%, respectively, over the 10-day Price. The average of such premiums is approximately 22.8%.

3. The conversion price for the convertible bonds during (i) the first year; (ii) the second year; and (iii) the third year till the maturity represents, respectively (i) a discount of approximately 4.26%; (ii) a premium of approximately 22.34%; and (iii) a premium of approximately 48.94% to/over the closing price per share on the Last Day. The average of such discount and premiums is a premium of approximately 22.34%.

4. The conversion price for the convertible bonds during (i) the first year; (ii) the second year; and (iii) the third year till the maturity represents a premium of approximately 18.19%, 51.02% and 83.85% respectively, over the 10-day Price. The average of such premiums is approximately 51.02%.

5. The convertible bond issued by New City (Beijing) Development Limited matures on the date falling on the expiry of the 24-month period from the date of completion for all the conditions of the subscription agreement in relation to the issue of the convertible bond.

6. The annual interest rates for the first year, second year and the third year are 4.75%, 5.00% and 5.25%, respectively. The average of such annual interest rates is 5%.

7. The issue of the Note is conditional on the approval by the Independent Shareholders at the EGM. The maturity date of 7 December 2006 is the initial maturity day which may be extended for further 12 months by Hong Jin at its sole discretion.

(i) Interest rate

As indicated in the table above, the interest rates of the Comparables range from nil to 5% per annum. We also notice that out of all the 18 Comparables, eight of which carry no interest. We are of the view that the zero coupon rate for the Note is in line with the market practice and is fair and reasonable so far as the Independent Shareholders are concerned.

In addition, we notice from the Company's latest annual report that the Group had unsecured bank borrowings and other borrowings from a securities broker in the total amount of approximately HK$10.9 million. As advised by the Directors, such borrowings bear interest rates ranging from 11% to 14% per annum. Compared with the existing borrowing costs of the Group, the issue of the Note at zero coupon rate, which would bring in additional fund to the Group without incurring additional interest cost, is in the interest of the Company and its shareholders as a whole.

It is stated in the letter from the Board that if the issue of the Note is not completed, the Company will consider to raise fund from the controlling Shareholder 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 (approximately HK$17.3 million) to the Company, which will be 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 The Hongkong and Shanghai Banking Corporation Limited on its outstanding amount. In view of the current financial position of the Group, we consider that it is prudent for the Company to finance its business development plan by issuing the Note with zero coupon instead of seeking other borrowings which would further increase the interest burden of the Group.

(ii) Maturity

The Comparables have a maturity ranging from six months to five years. Shareholders should note that the Note has an initial maturity of around one year which may by extended for further 12 months by Hong Jin at its sole discretion. As the maturity of the Note is within the above-mentioned range for the Comparables, we consider the maturity of the Note is fair and reasonable so far as the Independent Shareholders are concerned. In particular, given Hong Jin's financial commitment to the Group for at least around two years by subscribing for the Note, which would mature in around two years if extended, despite the uncertainty about the sufficiency of operations and the possibility of resumption of trading of Shares, we consider the maturity of the Note is in the interest of the Company and its shareholders as a whole.

(iii) Conversion Price

The Conversion Price of HK$0.17 per Share, which is subject to adjustment, represents:

(a)	Closing price of the Share on the Stock Exchange on the Last Trading Day	HK$0.15
	Premium	13.3%
(b)	Average closing price of the Share on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day	HK$0.172
	Discount	1.2%
(c)	Average closing price of the Share on the Stock Exchange for the last 30 consecutive trading days up to and including the Last Trading Day	HK$0.182
	Discount	6.6%

In assessing the fairness and reasonableness of the Conversion Price, we have sought to compare it with the Comparables and we notice that the conversion prices of five out of all the 18 Comparables represent discounts to their relevant closing price per share on the Last Day. We also note that there is one Comparable which issued convertible notes at a price which is the same as the closing price of its shares on the Last Day. The premiums of the conversion price over the closing price per share on the Last Day for the remaining 12 Comparables range from approximately 8.6% to 252.11%. We have excluded Wonson in our analysis of the Comparables as the premium for Wonson of approximately 252.11% represents an outlier for the purpose of statistical analysis. The premium of approximately 13.3% represented by the Conversion Price falls within the range of premiums between approximately 8.6% and 33.44% for the remaining 11 Comparables. Based on such observation, we consider the Conversion Price, which represents a premium of approximately 13.3% over the closing price of the Shares on the Last Trading Day, fair and reasonable so far as the Independent Shareholders are concerned.

In addition, we notice that the conversion prices of 11 out of all the 18 Comparables represent premiums ranging from approximately 3.8% to 51.02% over their relevant 10-day Price. We also note that there is one Comparable which issued convertible notes at a price which is the same as its 10-day Price. We have excluded Wonson in our analysis of the Comparables for the reason as stated above. The conversion prices for the other five Comparables represent discounts to their relevant 10-day Price ranging from approximately 0.4% to 70.37%.

It should be noted that the Shares have been suspended from trading since 13 May 2004 at the request of the Company pending the 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 had remained suspended as the Stock Exchange considers the Group had been unable to demonstrate a sufficient level of operations or assets to warrant the continued listing of the Shares. The Last Trading Day, being 12 May 2004, was a trading day which was more than a year from the date of the Subscription Agreement. In addition, among all the Comparables, the Company is the only company which has been put into the third stage of the delisting procedures. Given the fact that (i) the amount to be raised under the issue of the Note is substantial, i.e. HK$30 million, compared to the net liability position of the Group; (ii) the Note carries no interest; and (iii) the Conversion Price represents a slight discount of approximately 1.2% to the 10-day Price and is the second lowest among the five Comparables with their conversion prices representing discount to their relevant 10-day Price, we consider that, on balance, the Conversion Price is fair and reasonable so far as the Independent Shareholders are concerned.

In addition, we noted that the closing prices of the Shares during the 12-month period before the suspension of trading of the Shares from 1 May 2003 up to and including the Last Trading Day ranged from HK$0.06 to HK$0.24. Independent Shareholders should note that the historical market prices of the Shares during the period under review were not supported by any net asset value of the Group or dividend yield of the Shares as the Group had been loss-making consecutively for seven years since 1996 and had been in a net liability position for four years since 2001. Besides, we also notice that although there was trading of the Shares in 226 days out of a total of 256 trading days during the 12-month period under review, the Shares were thinly traded on the Stock Exchange during such period with the highest average daily turnover of approximately 1.56 million Shares (approximately 0.50% of the total number of Shares in issue) in August 2003 and the lowest average daily turnover of 0.10 million Shares (approximately 0.03% of the total number of Shares in issue) in July 2003. In particular, the trading of the Shares on the Stock Exchange has been suspended since 13 May 2004 and remained so as at the Latest Practicable Date for the reason stated above.

Given the current financial position of the Group, in particular the limited level of business operations, the low liquidity of the Shares before suspension of trading and the continuous suspension of trading of the Shares on the Stock Exchange from mid-May 2004 up to the Latest Practicable Date for over a year, we consider that it would be very difficult, if not impossible, for the Company to raise a meaningful amount of equity at a price close to the market prices of the Shares. Moreover, as mentioned in the paragraph headed "Reasons for the issue of the Note" above, Hong Jin became the controlling shareholder of the Company after completion of its subscription of 643,835,616 Shares in September

2004, representing approximately 67.5% of the then issued share capital of the Company. We notice that the conversion price of the Note of HK$0.17 per Share is more than double the subscription price of HK$0.073 per Share paid by Hong Jin in acquiring the controlling stake in the Company in 2004, which indicates Hong Jin's confidence in the future development of the Group. In addition, we consider that, with the increase in its shareholding interest in the Company upon Conversion, Hong Jin shows a stronger financial commitment to the Group at this critical juncture which is beneficial to the Group as a whole. In view of the additional funds available to the Group after the subscription of the Note by Hong Jin which is vital to the establishment of the JV Company and the continued operation of the Company, we consider that the Conversion Price is fair and reasonable so far as the Independent Shareholders are concerned.

5. Potential dilution effect

Upon Conversion in full, a total of 176,470,588 new Shares will be allotted and issued to Hong Jin, representing approximately 18.5% and 15.6% of the existing issued share capital and the enlarged issued share capital of the Company respectively. However, Shareholders should note that 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 held by the public falling below 25%.

We set out in the table below the Company's existing shareholding structure and its shareholding structure upon full Conversion at the Conversion Price of HK$0.17 per Share:

	Shareholding structure			
	Issued share capital as at the Latest Practicable Date		**Issued share capital upon the full Conversion**	
	Number of Shares	*%*	*Number of Shares*	*%*
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
Total	953,906,963	100.0	1,130,377,551	100.0

Upon full Conversion of the Note at the Conversion Price, the shareholding of public Shareholders in the Company will be diluted from approximately 32.51 to 27.43%. As mentioned in the paragraph headed "Background information of the Group" above, the Group had net current liabilities of approximately HK$48.6 million as at 31 December 2004, it is not likely to have sufficient resources to meet its cash flow requirements without the additional fund. In addition, the Company was put into the third stage of the delisting procedures and the listing of the Shares will be canceled if the Company fails to demonstrate a sufficient level of operations or has assets with sufficient value to comply with Rule 13.24 of the Listing Rules. In particular, Independent Shareholders should note the difficulty of the Company in obtaining additional fund by other means, which has been discussed in the paragraph headed

"Reasons for the issue of the Note" and "Conversion Price" above. We consider that the dilution effect on the existing Shareholders' shareholding interest in the Company as a result of the subscription of the Note and the subsequent Conversion by Hong Jin to be fair and reasonable for the purpose of proceeding with the establishment of the JV Company and financing the existing business operations of the Group.

RECOMMENDATION

In formulating our recommendation to the Independent Board Committee and the Independent Shareholders, we have considered the factors and reasons set out above, in particular, the followings:

(i) the difficult situations faced with the Group, including its tight liquidity position, limited level of business operation and possibility of delisting of the Shares on the Stock Exchange;

(ii) the difficulty faced with the Group to obtain new credit facilities or consider other means of equity financing;

(iii) the additional fund of approximately HK$30 million to be raised upon the issue of the Note to support the Group's existing operation and the expansion in new business opportunities which are crucial and critical to the Group;

(iv) the Note bears zero interest;

(v) the premium of the Conversion Price over the closing price per Share on the Last Trading Day falls within the range of premiums for the Comparables and the discount of the Conversion Price to the 10-day Price is the second lowest among the five Comparables with their conversion prices representing discount to their relevant 10-day Price; and

(vi) although the shareholding of the Independent Shareholders in the Company would, in aggregate, decrease from approximately 32.51% to 27.43% upon full Conversion, the issue of the Note will bring in additional fund of approximately HK$30 million for the purpose of proceeding with the establishment of the JV Company and financing the existing business operations of the Group.

Based on the above consideration, we are of the opinion that the issue of the Note is in the interest of the Company and its shareholders as a whole and the terms of which are fair and reasonable. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Subscription Agreement.

Yours faithfully,
For and on behalf of
AMS Corporate Finance Limited
Jinny Mok
Director

A. THREE-YEAR FINANCIAL SUMMARY

Set out below is a summary of the audited consolidated financial statements of the Group for each of the three years ended 31st December, 2004 extracted from the relevant annual reports of the Company:

	For the year ended 31 December		
	2004	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*
Results			
Turnover	1,169	1,355	6,785
Profit (Loss) from operations	225,898	125,949	(115,781)
Finance costs	(9,641)	(29,450)	(24,875)
Share of results of associates	–	31	16
Profit (Loss) from ordinary activities before taxation	216,257	96,530	(140,640)
Taxation	–	6	806
Minority interests	1,290	(304)	441
Profit (Loss) attributable to shareholders	217,547	96,232	(139,393)

	As at 31 December		
	2004	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*
Assets and liabilities			
Property, plant and equipment	643	424	29,560
Goodwill	–	–	1,548
Interest in associates	–	45	12,010
Investment securities	–	–	1
Net current liabilities	(48,589)	(308,101)	(447,287)
	(47,946)	(307,632)	(404,168)
Minority interests	–	(1,290)	(986)
Net liabilities	(47,946)	(308,922)	(405,154)
Capital and reserves			
Issued capital	19,078	6,201	6,201
Reserves	57,176	3,789	3,789
Accumulated losses	(124,200)	(318,912)	(415,144)
	(47,946)	(308,922)	(405,154)

B. AUDITORS' REPORT FOR THE THREE YEARS ENDED 31ST DECEMBER, 2004

The following is the reproduction of the text of the auditors' reports of the Company contained in the annual reports of the Company for each of the three years ended 31st December 2004.

(i) For the year ended 31st December, 2004

Moores Rowland Mazars
摩斯倫・馬賽會計師事務所

To the members of
Sanyuan Group Limited
(incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 21 to 54 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion solely to you, as a body, in accordance with section 141 of the Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement.

Fundamental uncertainty

At the balance sheet date, both the Company and the Group had significant capital deficiencies. In forming our opinion, we have considered the adequacy of disclosures made in the financial statements concerning the outcome of the Group's plans for acquisition of profitable operations and the availability of future funding.

The financial statements have been prepared on a going concern basis, the validity of which depends upon the success of the Group's future operations and sufficient future funding being available. The financial statements do not include all significant adjustments that would result should the future operations and funding plan prove to be unsuccessful. Had the going concern basis not been used, the adjustments necessary would have a consequential significant effect on the net liabilities as at 31 December 2004 and the profit for the year then ended.

DISCLAIMER OPINION

Because of the significance of the possible effect of the fundamental uncertainty, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of the Company's and the Group's affairs as at 31 December 2004 or of the profit of the Group for the year then ended. In our opinion, the financial statements give a true and fair view of the cash flows for the year ended 31 December 2004. In all other respects, in our opinion, the financial statements have been properly prepared in accordance with the Companies Ordinance.

Moores Rowland Mazars
Chartered Accountants
Certified Public Accountants

Hong Kong, 21 April 2005

(ii) For the year ended 31st December, 2003

Moores Rowland Mazars
摩斯倫・馬賽會計師事務所

To the members of
China Bio-medical Group Limited
(Incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 21 to 66 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion solely to you, as a body, in accordance with section 141 of the Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement.

Fundamental uncertainty

At the balance sheet date, both the Company and the Group had significant capital deficiencies. In forming our opinion, we have considered the adequacy of disclosures made in the financial statements concerning (i) the possible outcome of the discussions with the Group's banker and a finance company for restructuring the repayment terms of certain of the Group's borrowings and (ii) the result of the discussions with potential investors for the injection of capital into the Company. The financial statements have been prepared on a going concern basis, the validity of which depends upon the successful outcome of the restructuring of the Group's borrowings, the availability of funding from the potential investors and the success of the Group's future operations. The financial statements do not include all significant adjustments that would result should the restructuring of the repayment terms of the Group's borrowings or the discussions with potential investors or the Group's future operations prove to be unsuccessful. Had the going concern basis not been used, adjustments would have to be made in the financial statements to reclassify non-current assets as current assets and provide for any further liabilities which might arise. Such adjustments may have a consequential significant effect on the net liabilities as at 31 December 2003 and the profit for the year then ended.

DISCLAIMER OPINION

Because of the significance of the possible effect of the fundamental uncertainty, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of the Company's and the Group's affairs as at 31 December 2003 or of the profit of the Group for the year then ended. In our opinion, the financial statements give a true and fair view of the cash flows for the year ended 31 December 2003. In all other respects, in our opinion, the financial statements have been properly prepared in accordance with the Companies Ordinance.

Moores Rowland Mazars
Chartered Accountants
Certified Public Accountants

Hong Kong, 20 April 2004

(iii) For the year ended 31st December, 2002

Moores Rowland
摩斯倫會計師事務所

To the members of
China Bio-medical Group Limited
(incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 21 to 65 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants, except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

Limitation of scope

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited regarding the Group's interest in an associate. At the balance sheet date, the Group held a 49% equity interest in an associate, Beijing Radiant Bio-Tech Limited, which is registered as a wholly foreign-owned enterprise in the People's Republic of China. The carrying amount of the Group's share of net assets of the associate was HK$12,000,002. We have attempted to perform audit work on the management accounts of the associate in order to obtain sufficient evidence in relation to the Group's share of the net assets of the associate. However, as of the date of our report, we have not received a bank confirmation in respect of a bank balance of approximately HK$10,000,000

(RMB10,600,000) and the direct confirmation in respect of a creditor's balance of the same amount and there were no practicable alternative procedures that we could adopt to confirm the amounts of these balances.

Fundamental uncertainty

At the balance sheet date, both the Company and the Group had significant capital deficiencies. In forming our opinion, we have considered the adequacy of disclosures made in the financial statements concerning (i) the possible outcome of the discussions with the Group's bankers for restructuring the repayment terms of certain of the Group's bank borrowings and (ii) the result of the discussions with potential investors for the injection of capital into the Company. The financial statements have been prepared on a going concern basis, the validity of which depends upon the successful outcome of the restructuring of the Group's bank borrowings, the availability of funding from the potential investors and the success of the Group's future operations. The financial statements do not include all significant adjustments that would result should, the restructuring of the repayment terms of the bank borrowings or the discussions with the potential investors or the Group's future operations prove to be unsuccessful. Had the going concern basis not been used, adjustments would have to be made in the financial statements to reclassify non-current assets as current assets and provide for any further liabilities which might arise. Such adjustments may have a consequential significant effect on the net liabilities as at 31 December 2002 and the loss for the year then ended.

DISCLAIMER OPINION

Because of the significance of the possible effect of the limitation of scope and the fundamental uncertainty, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of the Company's and the Group's affairs as at 31 December 2002 or of the loss of the Group for the year then ended. In our opinion, the financial statements give a true and fair view of the cash flows for the year ended 31 December 2002.

In respect alone of the limitation on our work relating to a bank and a creditor's balances of an associate, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit. In all other respects, in our opinion, the financial statements have been properly prepared in accordance with the Companies Ordinance.

Moores Rowland
Chartered Accountants
Certified Public Accountants

Hong Kong, 23 April 2003

C. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE TWO YEARS ENDED 31ST DECEMBER, 2004 AND 2003

The following is the reproduction of the text of the audited consolidated financial statements of the Group contained in pages 21 to 54 of the Company's 2004 annual report:

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2004

	Note	**2004** *HK$'000*	**2003** *HK$'000*
Turnover	*3*	1,169	1,355
Other revenue	*3*	–	13
Other income		383	1,018
Material cost for service income		(418)	(491)
Depreciation		(321)	(488)
Staff costs		(5,424)	(6,726)
Other operating expenses		(5,103)	(5,714)
Operating loss before provisions and other losses and gains		(9,714)	(11,033)
Holding gain on other investments		217	41
Profit on disposal of other investments		53	–
Provision for amount due from unconsolidated subsidiaries		–	(91)
Reversal of losses of subsidiaries on deconsolidation	*11*	–	15,378
Guarantee income earned		–	5,803
Gain on disposal of subsidiaries	*11*	21,492	–
Loss on disposal of an associate	*12*	(1)	–
Gain on disposal of property, plant and equipment		7	5,672
(Provision for) Write-back of doubtful trade and other receivables		(3,571)	1,214
Gain on disposal of investment properties		–	700
Gain on discharge of bank and other indebtedness	*15(a)(b)*	217,415	–
Write-back of provision under corporate guarantees upon release of guarantees by banks		–	108,265
Profit from operations		225,898	125,949
Share of result of an associate		–	31
Finance costs	*4*	(9,641)	(29,450)
Profit from ordinary activities before taxation	*4*	216,257	96,530
Taxation	*6*	–	6
Profit from ordinary activities		216,257	96,536
Minority interests		1,290	(304)
Profit attributable to shareholders	*7*	217,547	96,232
Earnings per share	*8*	45.9 HK cents	31.0 HK cents

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2004

	2004	2003
	HK$'000	*HK$'000*
Opening balance – Total equity	(308,922)	(405,154)
Nominal value of share capital issued	12,877	–
Share premium	34,123	–
Capital reserve realised upon disposal of subsidiaries	(3,571)	–
Profit attributable to shareholders	217,547	96,232
Closing balance – Total equity	(47,946)	(308,922)

CONSOLIDATED BALANCE SHEET
At 31 December 2004

ASSETS AND LIABILITIES	Note	2004 HK$'000	2003 HK$'000
Non-current assets			
Property, plant and equipment	9	643	424
Goodwill	10	–	–
Interest in subsidiaries	11	–	–
Interest in an associate	12	–	45
		643	469
Current assets			
Other investments	13	581	427
Trade and other receivables	14	785	5,326
Bank balances and cash		720	634
		2,086	6,387
Current liabilities			
Borrowings	15	10,925	162,247
Trade and other payables	16	20,900	133,391
Provisions	17	18,850	18,850
		50,675	314,488
Net current liabilities		(48,589)	(308,101)
Total assets less current liabilities		(47,946)	(307,632)
Minority interests		–	(1,290)
NET LIABILITIES		(47,946)	(308,922)
CAPITAL AND RESERVES			
Issued capital	19	19,078	6,201
Reserves	20	57,176	3,789
Accumulated losses	21	(124,200)	(318,912)
		(47,946)	(308,922)

BALANCE SHEET
At 31 December 2004

ASSETS AND LIABILITIES	*Note*	**2004** *HK$'000*	**2003** *HK$'000*
Non-current assets			
Property, plant and equipment	*9*	284	140
Interest in subsidiaries	*11*	–	745
		284	885
Current assets			
Other investments	*13*	581	427
Trade and other receivables	*14*	581	4,020
Bank balances and cash		649	102
		1,811	4,549
Current liabilities			
Borrowings	*15*	1,355	34,203
Trade and other payables	*16*	17,096	42,114
Provisions	*17*	18,850	18,850
		37,301	95,167
Net current liabilities		(35,490)	(90,618)
NET LIABILITIES		(35,206)	(89,733)
CAPITAL AND RESERVES			
Issued capital	*19*	19,078	6,201
Reserves	*20*	78,879	21,921
Accumulated losses	*21*	(133,163)	(117,855)
		(35,206)	(89,733)

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2004

	Note	2004 HK$'000	2003 HK$'000
OPERATING ACTIVITIES			
Cash used in operations	23(a)	(10,428)	(9,463)
Hong Kong Profits Tax refunded		–	1,632
Interest paid		–	(32)
Net cash used in operating activities		(10,428)	(7,863)
INVESTING ACTIVITIES			
Dividend received from an associate		47	–
Net cash inflow from disposal of subsidiaries	23(b)	–	8,000
Net cash outflow from deconsolidation of subsidiaries		–	(10)
Proceeds from disposal of other investments		116	–
Proceeds from disposal of investment properties		–	3,700
Payment for acquisition of property, plant and equipment		(576)	(5)
Proceeds from disposal of property, plant and equipment		43	31,325
Guarantee income received from a minority shareholder of a subsidiary		–	7,351
Net cash (used in) from investing activities		(370)	50,361
FINANCING ACTIVITIES			
Issue of share capital		47,000	–
Repayment of bank borrowings		(35,412)	(3,081)
Repayment of other borrowings		(704)	(5,000)
Cash payment for deeds of settlement		–	(85)
Net cash from (used in) financing activities		10,884	(8,166)
Net increase in cash and cash equivalents		86	34,332
Cash and cash equivalents at beginning of year		(49,972)	(84,304)
Bank overdrafts discharged	23(c)	50,606	–
Cash and cash equivalents at end of year		720	(49,972)
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		720	634
Bank overdrafts		–	(50,606)
		720	(49,972)

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2004

1. GENERAL

The Company was incorporated in Hong Kong. Its ordinary shares are listed on The Stock Exchange of Hong Kong Limited.

2. PRINCIPAL ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Statements of Standard Accounting Practice ("SSAP") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The HKICPA has issued a number of new or revised Hong Kong Financial Reporting Standards ("HKFRS") and Hong Kong Accounting Standards ("HKAS") (collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted new HKFRSs in the financial statements for the year ended 31 December 2004.

The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

A summary of the principal accounting policies adopted by the Group is set out below.

Basis of preparation

The measurement basis used in the preparation of the financial statements is historical cost modified by the marking to market of certain other investments as explained in the accounting policies set out below.

Preparation of financial statements

Following the completion of share subscription agreement and payment of the settlement sums pursuant to the settlement agreements with Bank of China (Hong Kong) Limited ("BOC") and a finance company, the net liabilities of the Group was reduced to approximately HK$47,946,000 as at 31 December 2004. The Group is actively exploring and pursuing plans for acquiring future profitable operations and obtaining sources of future funding and the directors believe that these plans will finally be put into place. Accordingly, the financial statements have been prepared on a going concern basis.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. The results of subsidiaries acquired and disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. All significant inter-company transactions and balances within the Group are eliminated on consolidation.

The gain or loss on disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or negative goodwill, which have not been previously charged or recognised in the consolidated income statement.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

Year ended 31 December 2004

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries. Losses attributable to minority shareholders of partly owned subsidiaries are accounted for based on the respective equity owned by the minority shareholders up to the capital contributed by and other reserves attributable to the minority shareholders. Thereafter, the Group assumes all further losses.

Subsidiaries

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is an enterprise in which the Company, directly or indirectly, holds more than half of the voting power or issued share capital, or controls the composition of the board of directors or equivalent governing body. In the Company's balance sheet, the investments in subsidiaries are stated at cost less impairment losses. The carrying amount of the investment is reduced to its recoverable amount on an individual basis. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Associates

An associate is an enterprise in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

The consolidated income statement includes the Group's share of the results of the associate for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associate, net of accumulated amortisation and impairment losses.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary or an associate at the date of acquisition. When the terms of an acquisition provide for a subsequent adjustment of the purchase consideration, such adjustment will be treated as addition to or reduction in the cost of acquisition when it becomes probable and a reliable estimate can be made. Goodwill on acquisition is recognised as an asset and is amortised on a straight-line basis over its useful economic life not more than 5 years.

The carrying amount of goodwill is reviewed annually and written down for impairment losses. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue and costs, if applicable, can be measured reliably, and on the following basis:

Laboratory testing service income is recognised in the period when services are rendered.

Interest income is accrued on a time proportion basis on the principal outstanding and at the interest rate applicable.

Rental income is recognised in the period in which the properties are let out and on a straight-line basis over the lease terms.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

Year ended 31 December 2004

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and accumulated impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Major costs incurred in restoring assets to their normal working conditions are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives.

The gain or loss arising from the retirement or disposal of property, plant and equipment is determined as the difference between the estimated net sales proceeds and the carrying amount of the assets and is recognised as income or expense in the income statement.

Depreciation is provided to write off the cost or valuation less accumulated impairment losses of property, plant and equipment, over their estimated useful lives from the date on which they become fully operational and after taking into account of their estimated residual values, using the straight-line method, at the following rates per annum:

Leasehold improvements	Over lease terms
Machinery and equipment	24%
Motor vehicles	20%
Furniture and fixtures	20% – 30%

Investment in securities

Investments held on a continuing basis with an identified long-term purpose are classified as investment securities, which are stated at cost less any provision for impairment losses that is expected to be other than temporary.

The carrying amount of individual investment securities, or holdings of the same securities are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such investments will be reduced to its fair value. The impairment loss is recognised as an expense in the period in which the decline occurs. The impairment loss is written back to income when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

Other investments are stated in the balance sheet at their fair values. Changes in fair values are recognised in the income statement as they arise.

The profits or losses on disposal of investment securities and other investments are accounted for in the period in which the disposal occurs as the difference between the net sales proceeds and the carrying amount of the securities.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

Year ended 31 December 2004

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Impairment loss

At each balance sheet date, the Group reviews internal and external sources of information to determine whether the carrying amounts of its tangible and intangible assets have suffered an impairment loss or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its net selling price and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. a cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

A reversal of impairment losses is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment losses is recognised as income immediately.

Foreign currencies

Transactions involving foreign currencies are translated at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the rates of exchange ruling at that date. Translation differences are included in the income statement.

Taxation

The charge for current income tax is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided using the liability method, on all temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred tax liabilities or assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or liability is settled, based on the tax rates and the tax laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

No deferred tax is provided for temporary differences arising from goodwill/negative goodwill and investment in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

Year ended 31 December 2004

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals payable and receivable under operating leases are recognised as an expense and revenue on the straight-line basis over the lease terms. Lease incentives received are recognised in the income statement as an integral part of the net consideration agreed for the use of the leased asset. Contingent rentals are recognised as expenses in the accounting period in which they are incurred.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. Expenditures for which a provision has been recognised are charged against the related provision in the year in which the expenditures are incurred. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to be required to settle the obligation. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Cash equivalents

For the purpose of cash flow statement, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, net of bank overdrafts.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

Employee benefits

Defined contribution plans

The obligations for contributions to defined contribution Mandatory Provident Fund as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the income statement as incurred. The assets of the scheme are held separately from those of the Company in an independently administered fund.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

Year ended 31 December 2004

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Segment reporting *(Continued)*

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to the segment. For example, segment assets may include, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses.

3. TURNOVER AND REVENUE

The principal activity of the Company is investment holding. Its subsidiaries are principally engaged in property investment, pharmaceuticals and healthcare.

Turnover and revenue recognised by category are analysed as follows:

	2004	**2003**
	HK$'000	*HK$'000*
Turnover		
Rental income	–	306
Laboratory testing service income	1,169	1,049
	1,169	1,355
Other revenue		
Interest income	–	13
Revenue	1,169	1,368

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

Year ended 31 December 2004

4. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

This is stated after charging (crediting):

	2004 *HK$'000*	2003 *HK$'000*
(a) Finance costs		
Interest on bank overdrafts and borrowings wholly repayable within five years	9,332	29,258
Interest on other borrowings	309	192
	9,641	29,450

	2004 *HK$'000*	2003 *HK$'000*
(b) Other items		
Contributions to defined contribution plans	108	131
Auditors' remuneration	390	414
Operating lease charges on premises	581	1,055
Holding gain on other investments	(217)	(41)
Rental income (gross: HK$Nil (2003: HK$306,000)) net of outgoings from operating leases on investment properties	–	(57)

5. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 161 of the Hong Kong Companies Ordinance are as follows:

	2004 *HK$'000*	2003 *HK$'000*
Fees	160	80
Salaries, other emoluments and other benefits in kind	3,229	3,301
Retirement scheme contributions	28	24
	3,417	3,405

Included in the directors' emoluments were fees of HK$160,000 (2003: HK$80,000) paid to two independent non-executive directors during the year.

The Company's executive directors were entitled to discretionary bonus. For the year ended 31 December 2004, no discretionary bonus was paid.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

Year ended 31 December 2004

5. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS *(Continued)*

The emoluments of directors are within the following bands:

	Number of directors	
	2004	**2003**
Nil to HK$1,000,000	6	3
HK$2,000,001 to HK$2,500,000	1	1
	7	4

There was no arrangement under which director waived or agreed to waive any remuneration during the year. No incentive payment for joining the Group or compensation for loss of office was paid or payable to any director during the year.

The five highest-paid individuals of the Group for the year included 2 directors whose emoluments have been disclosed above. The emoluments of these individuals other than directors are as follows:

	2004	**2003**
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	1,119	1,152
Retirement scheme contributions	35	35

The emoluments of the 3 highest-paid individuals other than directors fell within the HK$Nil – HK$1,000,000 band.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

Year ended 31 December 2004

6. TAXATION

	The Group	
	2004	**2003**
	HK$'000	*HK$'000*
Hong Kong Profits Tax:		
Overprovision in prior years	–	(6)

Hong Kong Profits Tax has not been provided as the Group incurred losses for taxation purposes for the year.

	2004	**2003**
	HK$'000	*HK$'000*
Reconciliation of tax expense		
Profit from ordinary activities before taxation	216,257	96,530
Income tax at applicable tax rate of 17.5% (2003: 17.5%)	37,845	16,893
Non-deductible expenses	3,317	3,592
Tax exempt revenue	(41,169)	(23,026)
Unrecognised tax losses	1,808	2,635
Unrecognised temporary differences	27	36
Utilisation of previously unrecognised tax losses	(1,828)	(130)
Overprovision in prior year	–	(6)
Tax income for the year	–	(6)

The applicable tax rate is the Hong Kong Profits Tax rate of 17.5% (2003: 17.5%).

7. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Profit attributable to shareholders includes a profit of approximately HK$7,527,000 (2003: HK$108,548,000) which has been dealt with in the financial statements of the Company.

8. EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2004 was based on the consolidated profit of approximately HK$217,547,000 (2003: HK$96,232,000) and the weighted average of 473,668,922 shares (2003: 310,071,347 shares) in issue during the year.

No diluted earnings per share is presented as there were no dilutive potential ordinary shares in issue for the years 2004 and 2003.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

Year ended 31 December 2004

9. PROPERTY, PLANT AND EQUIPMENT

(a) The Group

	Machinery and equipment *HK$'000*	Motor vehicles *HK$'000*	Leasehold improvements, furniture and fixtures *HK$'000*	Total *HK$'000*
Cost or valuation				
At beginning of year	115	245	1,737	2,097
Additions	–	–	576	576
Disposals/write-off	(115)	(245)	(329)	(689)
At balance sheet date	**–**	**–**	**1,984**	**1,984**
Accumulated depreciation				
At beginning of year	97	245	1,331	1,673
Charge for the year	3	–	318	321
Eliminated on disposals/ write-off	(100)	(245)	(308)	(653)
At balance sheet date	**–**	**–**	**1,341**	**1,341**
Net book value				
At balance sheet date	**–**	**–**	**643**	**643**
At beginning of year	18	–	406	424

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

Year ended 31 December 2004

9. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(b) The Company

	Motor vehicles *HK$'000*	Leasehold improvements, furniture and fixtures *HK$'000*	Total *HK$'000*
Cost			
At beginning of year	245	445	690
Additions	–	280	280
Disposals/write-off	(245)	(87)	(332)
At balance sheet date	**–**	**638**	**638**
Accumulated depreciation			
At beginning of year	245	305	550
Charge for the year	–	115	115
Elimination on disposals/write-off	(245)	(66)	(311)
At balance sheet date	**–**	**354**	**354**
Net book value			
At balance sheet date	**–**	**284**	**284**
At beginning of year	–	140	140

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

Year ended 31 December 2004

10. GOODWILL

	Positive goodwill *HK$'000*	**Negative goodwill** *HK$'000*	**Total** *HK$'000*
At beginning of year			
Cost	30,329	(71)	30,258
Accumulated amortisation and impairment losses	(30,329)	71	(30,258)
Opening carrying amount	–	–	–
Cost written off on disposal	(30,329)	–	(30,329)
Accumulated amortisation and impairment loss transferred to income statement on disposal	30,329	–	30,329
Closing carrying amount	–	–	–
At balance sheet date			
Cost	–	(71)	(71)
Accumulated amortisation and impairment losses	–	71	71
Closing carrying amount	–	–	–

11. INTEREST IN SUBSIDIARIES

	2004 *HK$'000*	**2003** *HK$'000*
The Group		
Unconsolidated subsidiaries:		
Unlisted shares, at cost	–	66,306
Loans to subsidiaries	–	25,900
	–	92,206
Less: Provisions	–	(92,206)
	–	–

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

Year ended 31 December 2004

11. INTEREST IN SUBSIDIARIES *(Continued)*

On 29 January 2003, a Company's subsidiary which operations were terminated in 2001 received a court order in respect of a creditor winding up and the subsidiary was subsequently taken over by the provisional liquidators. As the Group could no longer exercise any control over the subsidiary and its subsidiaries, these companies were deconsolidated from the Group's financial statements with effect from 29 January 2003 and classified as unconsolidated subsidiaries in the Group's financial statements. As a result of the deconsolidation, the excess of liabilities over assets of the unconsolidated subsidiaries as at 29 January 2003 of approximately HK$15,378,000 was reversed and credited to the income statement in 2003. The costs and provisions of interest in these subsidiaries have been written off during the year on completion of the winding up.

	2004	**2003**
The Company	*HK$'000*	*HK$'000*
Unlisted shares, at cost	1,000	84,512
Loans to subsidiaries	121,974	708,343
	122,974	792,855
Less: Provisions	(122,974)	(792,110)
	–	745

Loans to subsidiaries are unsecured, interest-free and have no pre-determined repayment terms. The Company has agreed not to demand repayment from the subsidiaries before 1 January 2006.

During the year, the Group disposed of 49 subsidiaries for a total consideration of HK$130. Gain on disposal in the amount of HK$21,492,000 has been included as an income in the income statement.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

Year ended 31 December 2004

11. INTEREST IN SUBSIDIARIES *(Continued)*

Details of the subsidiaries at the balance sheet date are as follows:

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid capital	Percentage of capital held by the Company Directly	Indirectly	Principal activities
Beadle International Limited	British Virgin Islands	US$1	100%	–	Dormant
Brilliant Team Investment Limited	Hong Kong	HK$2	100%	–	Investment holding
GenePro Medical Biotechnology Limited	Hong Kong	HK$1,000,000	100%	–	DNA testing services
Infinity Properties Limited	Hong Kong	HK$2	–	100%	Inactive
Jet Quarter Limited	Hong Kong	HK$2	–	100%	Inactive
Kimpo Investment Limited	Hong Kong	HK$2	100%	–	Investment holding
Ontex Investment Limited	Hong Kong	HK$2	100%	–	Investment holding
Propland Limited	Hong Kong	HK$2	–	100%	Inactive
V & O Company Limited	Hong Kong	HK$2	–	100%	Inactive

12. INTEREST IN AN ASSOCIATE

	2004 *HK$'000*	2003 *HK$'000*
Share of net assets	–	49
Due to an associate	–	(4)
	–	45

During the year, the Group disposed of its 20% interest in the issued ordinary share capital of an associate, Biosonic Limited, for a consideration of HK$1. Loss on disposal of the associate in the amount of HK$1,000 has been included as an expense in the income statement.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

Year ended 31 December 2004

13. OTHER INVESTMENTS

	The Group and the Company	
	2004	**2003**
	HK$'000	*HK$'000*
At fair value:		
Equity securities listed in Hong Kong	581	427

14. TRADE AND OTHER RECEIVABLES

		The Group		The Company	
		2004	**2003**	**2004**	**2003**
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables	*14(a)*	136	145	–	–
Other receivables					
Deposits, prepayment and other debtors		644	5,136	581	4,020
Due from a related company	*14(b)*	5	45	–	–
		649	5,181	581	4,020
		785	5,326	581	4,020

(a) TRADE RECEIVABLES

The Group provides term credit to customers in accordance with the Group's established credit policies of 30 days (2003: 30 days). The ageing analysis of trade receivables is as follows:

	2004	**2003**
	HK$'000	*HK$'000*
Within 1 month	110	76
1 – 2 months	7	39
2 – 3 months	3	–
3 – 6 months	–	1
6 – 12 months	5	2
Over 1 year	11	27
	136	145

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
Year ended 31 December 2004

14. TRADE AND OTHER RECEIVABLES *(Continued)*

(b) DUE FROM A RELATED COMPANY

This represents amount due from ReliaLab Medical Laboratory & X-Ray Centre Limited ("ReliaLab"). Dr. Wan Kwong Kee, a director of the Company, and Dr. Chow Wing Cho, a director of a wholly-owned subsidiary of the Company, are also directors and indirect shareholders of ReliaLab. The amount due is unsecured, interest-free and has no fixed repayment terms. The maximum amount outstanding during the year was HK$63,000 (2003: HK$45,000). At the balance sheet date, provision of HK$57,000 (2003: Nil) had been made in respect of the outstanding balance.

15. BORROWINGS

	The Group		The Company	
	2004	**2003**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bank borrowings *(note 15(a))*				
Bank overdrafts				
– unsecured	–	50,606	–	32,909
Trust receipts bank loans				
– unsecured	–	17,404	–	–
Other bank borrowings				
– unsecured	9,570	90,553	–	–
Other borrowings *(note 15(b))*	1,355	3,684	1,355	1,294
	10,925	162,247	1,355	34,203

(a) BANK BORROWINGS

Immediate before the settlement of the indebtedness due to BOC, the Group was indebted to BOC totalling HK$262,616,000, representing (i) HK$34,527,000 of bank borrowings originally secured on properties held by former subsidiaries sold to Singapore Hong Kong Properties Investment Limited ("SPI"), now renamed Landune International Limited and (ii) HK$ 228,089,000 related to other bank borrowings raised by the Group. On 31 December 2003, SPI entered into a settlement agreement with BOC ("the SPI Settlement Agreement") whereby approximately HK$34,527,000 of the indebtedness owed by the Group to BOC mentioned in (i) above would be discharged subject to satisfaction by SPI of certain conditions. On 30 June 2004 and 30 September 2004, the Group entered into two related agreements with BOC ("the BOC Agreements"), whereby the Group's indebtedness mentioned in (ii) above would be discharged upon the payment by the Group of HK$35,412,000 and the performance by the Group of certain procedures, including the winding-up of certain of the Group's subsidiaries. The conditions for the discharge and release of the bank borrowings had been substantially satisfied at the balance sheet date and bank indebtedness of HK$249,639,000 after netting of the settlement amount of HK$35,412,000, has been released and recognised as income in the financial statements for the year ended 31 December 2004.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

Year ended 31 December 2004

15. BORROWINGS *(Continued)*

(b) OTHER BORROWINGS

On 2 July 2004, the Company and a subsidiary of the Company entered into a settlement deed with the finance company in respect of the settlement of the principal amount and accrued interest due and payable to the finance company by the subsidiary in the amount of HK$3,776,000. Pursuant to the settlement deed, the amount due to the finance company was discharged and released upon the payment to the finance company an aggregate sum of HK$588,000. By 13 October 2004, the Group paid the settlement sum and the Group's obligations regarding the indebtedness of HK$3,776,000 were discharged by the finance company. Gain on discharge of amount due to a finance company in the amount of HK$3,188,000 has been recognised in the financial statements for the year ended 31 December 2004.

The remaining amount as at 31 December 2004 represented an amount of HK$1,355,000 due to a securities broker bore interest at 14% per annum (2003: 14% per annum) and was secured by the Group's other investments with a net book value of approximately HK$525,000 (2003: HK$378,000).

16. TRADE AND OTHER PAYABLES

		The Group		The Company	
		2004	**2003**	**2004**	**2003**
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	*16(a)*	239	234	–	–
Other payables					
Accrued charges and other creditors		8,114	9,287	7,996	8,846
Accrued interest expenses		3,406	95,975	–	16,854
Convertible note deposit received	*16(b)*	7,200	7,200	7,200	7,200
Due to subsidiaries	*16(c)*	–	–	–	6,849
Due to directors	*16(d)*	395	1,297	354	819
Due to a former related company	*16(e)*	1,546	1,546	1,546	1,546
Due to a subsidiary of SPI		–	17,852	–	–
		20,661	133,157	17,096	42,114
		20,900	133,391	17,096	42,114

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

Year ended 31 December 2004

16. TRADE AND OTHER PAYABLES *(Continued)*

(a) TRADE PAYABLES

The ageing analysis of trade payables is as follows:

	The Group	
	2004	**2003**
	HK$'000	*HK$'000*
Within 1 month	44	51
1 – 2 months	8	33
2 – 3 months	5	9
3 – 6 months	78	23
6 – 12 months	28	66
Over 1 year	76	52
	239	234

(b) CONVERTIBLE NOTE DEPOSIT RECEIVED

On 15 May 2001, the Company entered into an agreement (the "Agreement") with an independent third party (the "Purchaser") under which the Company would issue convertible note of HK$80,000,000 to the Purchaser on or before 30 June 2001. Such convertible note was unsecured, bore interest at 3% per annum and convertible (at the discretion of the Company) into ordinary shares of the Company at conversion price of HK$0.22 per share.

The completion date of the Agreement was subsequently extended to 31 July 2001 and later to 18 September 2001 by mutual agreement. On 18 September 2001, the Company and the Purchaser entered into a supplemental agreement to amend certain terms of the convertible note. Under the supplemental agreement, the principal amount of the convertible note was increased from HK$80,000,000 to HK$100,000,000 and would be issued in three tranches. Deposits totalling HK$7,200,000 were received in 2001. On 31 December 2001, the Purchaser informed the Company in writing that it would not proceed with the completion of the supplemental agreement in relation to the issue of the convertible notes. After the balance sheet date, the Company entered into an agreement with the Purchaser for the release of each other of all liabilities and obligations.

(c) DUE TO SUBSIDIARIES

The amounts due were unsecured, interest-free and had no fixed repayment terms.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

Year ended 31 December 2004

16. TRADE AND OTHER PAYABLES *(Continued)*

(d) DUE TO DIRECTORS

Details of amounts due to directors are as follows:

	The Group		The Company	
	2004	2003	2004	2003
Name of director	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Wu Kwai Yung	354	–	354	–
Wan Kwong Kee	41	798	–	320
Chan Peng Kuan	–	499	–	499
	395	1,297	354	819

During the year, a cash advance of approximately HK$104,721 was received from Dr. Wan Kwong Kee to finance the laboratory testing operation.

The amounts due are unsecured, interest-free and have no fixed repayment terms.

(e) DUE TO A FORMER RELATED COMPANY

The amount due is unsecured, interest-free and has no fixed repayment terms.

17. PROVISIONS

The provisions comprise principally provisions in respect of legal claims. Up to the date of approval of these financial statements by the directors, no action has been taken by both the plaintiffs and the Group. The directors consider that disclosure of further details of these claims would seriously prejudice the Company's negotiation position and accordingly further information on the nature of the obligations has not been provided.

18. DEFERRED TAXATION

The Group has not recognised deferred tax assets in respect of tax losses of HK$111,595,000 (2003: HK$217,466,000).

The Company has not recognised deferred tax assets in respect of tax losses of HK$96,396,000 (2003: HK$86,787,000).

The tax losses have no expiry date under current tax legislation.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

Year ended 31 December 2004

19. ISSUED CAPITAL

	2004		2003	
	No. of shares	Nominal value	No. of shares	Nominal value
	'000	*HK$'000*	*'000*	*HK$'000*
Authorised:				
At beginning of year, at HK$0.02 (2003: HK$0.02) each	100,000,000	2,000,000	100,000,000	2,000,000
Issued and fully paid:				
At beginning of year, at HK$0.02 (2003: HK$0.02) each	310,071	6,201	310,071	6,201
New shares issued	643,836	12,877	–	–
At balance sheet date, at HK$0.02 each	953,907	19,078	310,071	6,201

On 2 July 2004, the Company entered into a subscription agreement ("Subscription Agreement") with a subscriber ("Subscriber"), pursuant to which the Subscriber agreed to conditionally subscribe for a total of 643,835,616 shares of the Company at a price of HK$0.073 per share (included HK$0.053 share premium). The Subscription Agreement was duly approved by the shareholders of the Company at the extraordinary general meeting held on 7 September 2004.

By 30 September 2004, the Subscription Agreement was duly completed, the Company issued the shares of the Company pursuant to the Subscription Agreement to the Subscriber and received the subscription monies in cash amount of HK$40,000,000 and a deed of discharge in respect of an indebtedness of HK$7,000,000. The Subscriber owns 643,835,616 shares of the Company, representing 67.5% of the then enlarged issued share capital of the Company. These shares rank pari passu with the existing shares in all respects.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

Year ended 31 December 2004

20. RESERVES

	Share premium *HK$'000*	Capital reserve *HK$'000*	General reserve *HK$'000*	Special capital reserve *HK$'000*	Total *HK$'000*
The Group					
At 1 January 2003 and at 31 December 2003	–	3,571	200	18	3,789
Shares issued at premium	34,123	–	–	–	34,123
Disposal of subsidiaries	–	(3,571)	–	–	(3,571)
Transfer of recoveries of provision from accumulated losses as required under the Order on Petition	–	–	–	22,835	22,835
At 31 December 2004	**34,123**	**–**	**200**	**22,853**	**57,176**

The application of share premium account is governed by section 48B of the Hong Kong Companies Ordinance.

	Share premium *HK$'000*	General reserve *HK$'000*	Special capital reserve *HK$'000*	Total *HK$'000*
The Company				
At 1 January 2003	–	200	18	218
Transfer from recoveries of provision during the year as required under the Order on Petition	–	–	21,703	21,703
At 31 December 2003	–	200	21,721	21,921
Transfer of recoveries of provision from accumulated losses as required under the Order on Petition	–	–	22,835	22,835
Share premium	34,123	–	–	34,123
At 31 December 2004	**34,123**	**200**	**44,556**	**78,879**

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

Year ended 31 December 2004

20. RESERVES *(Continued)*

(a) As part of the capital reorganisation ("the Reorganisation") (details of which are set out in the Company's circular dated 1 August 2002), an Order on Petition dated 15 October 2002 (the "Order") was issued by the High Court of the Hong Kong Special Administrative Region in connection with the reduction of the capital and the utilisation of the share premium account of the Company pursuant to which the Company undertook to the Court that any future recoveries by the Company in respect of certain provision for diminution in value beyond their written down value in the Company's audited accounts for the period ended 31 December 2001 up to an overall aggregate amount of approximately HK$990,320,000 will be credited to a special capital reserve. So long as there remains outstanding any debt of or claim against the Company which, if the date on which the reduction of capital and cancellation of the share premium account became effective (the "Effective Date") were the date of the commencement of the winding up of the Company would have been admissible to proof in such winding up and the persons entitled to the benefit of such debts or claims shall not have agreed otherwise, such reserve shall not be treated as realised profits and shall, for so long as the Company shall remain a listed company, be treated as an undistributable reserve of the Company for the purposes of section 79C of the Companies Ordinance (Cap. 32) or any statutory re-enactment or modification thereof provided that:

(i) The Company shall be at liberty to apply the said special capital reserve for the same purposes as a share premium account may be applied;

(ii) The overall aggregate limit of special capital reserve of approximately HK$990,320,000 may be reduced by the amount of any increase, after the Effective Date, in the paid up share capital or the amount of the share premium account of the Company as the result of the issue of shares for new consideration or the capitalisation of distributable profits;

(iii) The overall aggregate limit of special capital reserve of approximately HK$990,320,000 may be reduced upon the realisation, after the Effective Date, of any of the assets identified in the Court Order by the amount of the total provision made in relation to each such asset as at 31 December 2001 less such amount (if any) as is credited to the said special capital reserve as a result of such realisation; and

(iv) When the credit amount of the special capital reserve exceeds the overall aggregate limit thereof after any reduction of such overall aggregate limit pursuant to provisos (ii) and/or (iii) above, the Company shall be at liberty to transfer the amount of any such excess to the general reserves of the Company and the same shall become available for distribution.

(b) During the year, the Company recovered part of the provisions for diminution in value of investment in subsidiaries and inter-company balances as prescribed in the Order in the amount of HK$22,835,000. As required by the terms of the Order, this amount has been credited to special capital reserve. Up to 31 December 2004, the Company has credited approximately HK$44,556,000 (2003: HK$21,721,000) to the special capital reserve, which reduced the overall aggregate limit of special capital reserve with the same amount. Such amount was further reduced by the issue of share capital of HK$47,000,000 during the year. As a result, the maximum amount to be credited to the special capital reserve was reduced to approximately HK$898,764,000 (2003: HK$968,599,000).

(c) The Company had no reserves available for distribution to shareholders as at 31 December 2004 (2003: Nil).

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

Year ended 31 December 2004

21. ACCUMULATED LOSSES

	The Group		The Company	
	2004	**2003**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At beginning of year	(318,912)	(415,144)	(117,855)	(204,700)
Profit for the year	217,547	96,232	7,527	108,548
Transfer to special capital reserve as required under the Order on Petition	(22,835)	–	(22,835)	(21,703)
At balance sheet date	(124,200)	(318,912)	(133,163)	(117,855)

22. 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.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

Year ended 31 December 2004

23. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Cash used in operations

	2004	2003
	HK$'000	*HK$'000*
Profit from ordinary activities before taxation	216,257	96,530
Interest income	–	(13)
Interest expense	9,641	29,450
Depreciation	321	488
Guarantee income earned	–	(5,803)
Share of results of an associate	–	(31)
Gain on disposal of investment properties	–	(700)
Gain on disposal of property, plant and equipment	(7)	(5,672)
Holding gain on other investments	(217)	(41)
Gain on disposal of other investments	(53)	–
Gain on discharge of bank and other indebtedness *(notes 15(a)&(b))*	(217,415)	–
Gain on disposal of subsidiaries	(21,492)	–
Loss on disposal of an associate	1	–
Provision for amounts due from unconsolidated subsidiaries	–	91
Reversal of losses of subsidiaries on deconsolidation	–	(15,378)
Other income	–	(98)
Impairment loss on investment securities	–	1
Gain arising from waiver of trade payables	–	(139)
Provision (Write-back) for doubtful trade and other receivables	3,571	(1,214)
Write-back of provision under corporate guarantees upon release of guarantees by the banks	–	(108,265)
Changes in working capital:		
Trade and other receivables	110	9,221
Trade and other payables	(1,142)	(7,886)
Due to an associate	(3)	(4)
Cash used in operations	(10,428)	(9,463)

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

Year ended 31 December 2004

23. NOTES TO CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Disposal of subsidiaries

	2004	2003
	HK$'000	*HK$'000*
Net liabilities disposed of:		
Interest in an associate	–	12,000
Other payables	(593,705)	(24,508)
	(593,705)	(12,508)
Capital reserve realised upon disposal of subsidiaries	(3,571)	–
Gain on disposal of subsidiaries	21,492	–
Total consideration	(575,784)	(12,508)
Satisfied by:		
Cash consideration	–	12,000
Debt assignment	(575,784)	(24,508)
	(575,784)	(12,508)

Analysis of inflow of cash and cash equivalents in respect of disposal of subsidiaries:

	2004	2003
	HK$'000	*HK$'000*
Cash consideration	–	12,000
Proceeds receivable	–	(4,000)
Net inflow of cash and cash equivalents	–	8,000

During the year, the Group disposed of 49 subsidiaries, at their carrying amounts for a total consideration of HK$130. The subsidiaries had no activities and the disposal of subsidiaries gave rise to a total gain of approximately HK$21,492,000.

(c) Major non-cash transaction

During the year, the Group has paid a total sum of HK$36,000,000 in settlement of the Group's bank and other indebtedness in the amount of HK$253,415,000, realising a gain on discharge of indebtedness of HK$217,415,000. Included in the indebtedness discharged were bank overdrafts with balance of HK$50,606,000 brought forward from 2003.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

Year ended 31 December 2004

24. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions/information disclosed elsewhere in these financial statements, during the year, the Group had the following transactions with ReliaLab.

	2004	2003
	HK$'000	*HK$'000*
Rental expenses recharged *(note i)*	(45)	(45)
Salaries received for shared staff *(note i)*	(52)	(50)
Salaries paid for shared staff *(note i)*	59	33
Management fee recharged *(note i)*	(12)	–
Electricity fee recharged *(note i)*	(6)	–
Testing fee expense *(note ii)*	26	7
Laboratory testing service income *(note ii)*	(43)	(4)

(i) These expenses were recharged/shared with reference to the actual expenses incurred.

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

(iii) The above transactions did not fall under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules.

(b) On 15 March 2004, a wholly-owned subsidiary of the Company as tenant entered into a tenancy agreement on normal commercial terms with Dr. Wan Kwong Kee, director of the Company and 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. This transaction constituted exempt continuing connected transaction of the Company under Rule 14A.33(3) of the Listing Rules which was exempt from the reporting, announcement and independent shareholders' approval requirements.

25. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had future minimum lease payments under non-cancellable operating leases payable as follows:

	2004	2003
	HK$'000	*HK$'000*
Within one year	622	174
In second to fifth years inclusive	697	–
	1,319	174

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

Year ended 31 December 2004

26. CONTINGENT LIABILITIES

As at 31 December 2004, the Group had the following contingent liabilities:

(a) On 5 February 1999, the Company issued a writ against Core Pacific-Yamaichi International (H.K.) Limited ("Core Pacific") for (i) damages as a result of breaching a loan facility agreement dated 7 August 1998 of approximately HK$120,000,000 (the "Facility"); (ii) damages as a result of breaching fiduciary duties as arranger and joint financial advisor under an agreement dated 6 August 1998; and (iii) an indemnity against all loss in relation to a purported supplemental deed dated 13 November 1998 (the "Supplemental Deed"). On 23 March 1999, Core Pacific issued a writ against the Company for interest of approximately HK$4,000,000 and overdue interest together with other administrative expenses for approximately HK$1,000,000 under the Facility and the Supplemental Deed. Of the HK$5,000,000 claim, the directors consider that the HK$1,000,000 claim is without merit. The remaining HK$4,000,000 is still in dispute and has been provided for in the financial statements.

(b) Pursuant to the SPI Settlement Agreement (note 15(a)), the Company is liable to a reinstatement of all liabilities and obligations under the corporate guarantees and the outstanding indebtedness owed by the Company to BOC when the settlement under the SPI Settlement Agreement is revoked, occurrence of which is not considered probable. Subsequently, the Group and BOC agreed pursuant to the BOC Agreements, in the event of the revocation of the SPI Settlement Agreement, the Company shall pay to BOC an additional sum of approximately HK$223,000.

(c) Pursuant to the two settlement deeds with creditor banks and SPI entered into in 2003 for the discharge and release of all the liabilities and obligations of the Company under guarantees given by the Company in respect of banking facilities extended to the subsidiaries of SPI, the releases are subject to reinstatement in the event that the settlements under these deeds are revoked, occurrence of which is not considered probable. The total amount of liabilities released by the creditor banks amounted to approximately HK$37,136,000.

(d) Pursuant to the BOC Agreements, the Company is liable to a reinstatement of all liabilities and obligations under the guarantees and outstanding liabilities released and discharged when the BOC Agreements are revoked, occurrence of which is not considered probable. The total liabilities released under the BOC Agreements amounted to approximately HK$215,112,000 and the settlement sum already paid for the settlement is approximately HK$35,412,000.

27. PENSION SCHEME

The group companies operating in Hong Kong have participated in the defined contribution Mandatory Provident Fund in Hong Kong since 1 December 2000. Monthly contributions are made to the scheme based on 5% of the employees' basic salaries with the maximum amount of contribution by each of the Group and the employees limited to HK$12,000 per annum. The contributions to the mandatory provident fund scheme vest immediately and fully as employees benefits once the contributions become payable by the Group. There is no forfeited contribution when employees leave the mandatory provident fund scheme. The Group's (employer's) contributions made during the year ended 31 December 2004 amounted to approximately HK$108,000 (2003: HK$131,000).

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
Year ended 31 December 2004

28. SEGMENT INFORMATION

The analysis of the principal activities of the operations of the Group during the year is as follows:

(a) By business segments

The Group comprises the following main business segments:

	Property investment	Transportation services	Pharmaceutical and healthcare	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2003				
Sales revenue from external customers	306	–	1,049	1,355
Segment result	557	6,789	(1,119)	6,227
Unallocated operating income and expenses				119,722
Profit from operations				125,949
Share of results of an associate				31
Finance costs				(29,450)
Profit from ordinary activities before taxation				96,530
Taxation				6
Profit from ordinary activities				96,536
Minority interests				(304)
Profit attributable to shareholders				96,232
OTHER INFORMATION				
Capital expenditures	–	–	–	
Depreciation	–	118	99	
Impairment losses	–	–	–	
Other non-cash expenses other than depreciation	–	–	3	
Other non-cash revenue	(700)	(1,967)	–	

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
Year ended 31 December 2004

28. SEGMENT INFORMATION *(Continued)*

(a) By business segments *(Continued)*

	Property investment	Transportation services	Pharmaceutical and healthcare	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2004				
Sales revenue from external customers	–	–	1,169	1,169
Segment result	126,003	–	(881)	125,122
Unallocated operating income and expenses				100,776
Profit from operations				225,898
Share of results of an associate				–
Finance costs				(9,641)
Profit from ordinary activities before taxation				216,257
Taxation				–
Profit from ordinary activities				216,257
Minority interests				1,290
Profit attributable to shareholders				217,547
OTHER INFORMATION				
Capital expenditures	–	–	298	
Depreciation	–	–	194	
Impairment losses	–	–	–	
Other non-cash expenses other than depreciation	–	–	57	
Other non-cash revenue	(126,217)	–	–	

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

Year ended 31 December 2004

28. SEGMENT INFORMATION *(Continued)*

(a) By business segments *(Continued)*

	Property investment *HK$'000*	Transportation services *HK$'000*	Pharmaceutical and healthcare *HK$'000*	Consolidated *HK$'000*
As at 31 December 2003				
Assets				
Segment assets	601	795	721	2,117
Unallocated assets				4,739
Total assets				6,856
Liabilities				
Segment liabilities	(135,057)	(54)	(725)	(135,836)
Unallocated liabilities				(178,652)
Total liabilities				(314,488)
As at 31 December 2004				
Assets				
Segment assets	45	–	589	634
Unallocated assets				2,095
Total assets				2,729
Liabilities				
Segment liabilities	(12,977)	–	(398)	(13,375)
Unallocated liabilities				(37,300)
Total liabilities				(50,675)

(b) By geographic segment

No analysis of the Group's geographical segment information on sales revenue and result are presented as all sales revenue and result generated from the business activities were derived from Hong Kong for the years ended 31 December 2003 and 2004.

All the segment assets of the Group for years 2003 and 2004 are located in Hong Kong.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

Year ended 31 December 2004

29. POST BALANCE SHEET EVENTS

(a) On 14 March 2005, the Company entered into an agreement with China Union Pharmaceutical Company Limited ("the Purchaser") pursuant to which the Company agreed to terminate the supplemental agreement dated 18 September 2001 for the subscription of convertible note to be issued by the Company (note 16(b)) and both parties agreed to release each other of all liabilities and obligations, on the condition that the repayment of the deposit of HK$7,200,000 paid by the Purchaser for the subscription under the supplemental agreement be waived.

(b) On 27 March 2003, the Company entered into an agreement with an independent third party for the disposal of a subsidiary and the assignment of the shareholder's loan. On the signing of the agreement, a refundable deposit of HK$1,500,000 was paid to the Company. As the acquirer failed to obtain the necessary approvals, the sale could not be completed within the time prescribed and was terminated with the deposit to be returned to the acquirer. On 17 March 2005, the Company received a letter from the acquirer proposing that it would waive its right for the repayment of the deposit unconditionally and both parties would have to release each other of the liabilities and obligation under the agreement. Afterwards, the Company confirmed its acceptance of proposal on 24 March 2005."

The following is the text of a report, prepared for the sole purpose of inclusion in this Circular, received from the independent reporting accountants, RSM Nelson Wheeler, Certified Public Accountants, Hong Kong.

RSM Nelson Wheeler
羅 申 美 會 計 師 行
Certified Public Accountants

7th Floor, Allied Kajima Building
138 Gloucester Road, Hong Kong

19th August, 2005

The Board of Directors
Sanyuan Group Limited
Suite 1429, 14th Floor
Ocean Centre
5 Canton Road
Tsimshatsui, Kowloon
Hong Kong

Dear Sirs,

We set out below our report on the financial information regarding Tianjin Shi Yi Yao Company Jin Shun Branch Company (天津市醫藥公司津順分公司) ("Jin Shun") for the four months from 1st September, 2003 (date of commencement of the business since Tianjin Shi Yi Yao Company (天津市醫藥公司) entered into a co-operation agreement and a supplemental agreement with Tianjin Guo Jin Investment Company Limited (天津國津投資有限公司) and Tianjin Shi He Xi Qu Bei Fang Dai Yao Fang (天津市河西區北方大藥房) to operate Jin Shun) to 31st December, 2003, the year ended 31st December, 2004 and the four months ended 30th April, 2005 ("Relevant Periods") for inclusion in the circular of Sanyuan Group Limited dated 19th August, 2005 for the very substantial acquisition in relation to the formation of Tianjin Jinshun Pharmaceutical Company Limited (天津津順醫藥有限責任公司) (the "Circular").

Jin Shun is a business division of a state-owned enterprise, Tianjin Shi Yi Yao Company (天津市醫藥公司), and established under the laws of the People's Republic of China (the "PRC") on 22nd December, 1998. Jin Shun is principally engaged in the sale and distribution of pharmaceutical products in Tianjin, Beijing and neighbouring cities in the northern part of the PRC. In September, 2003 Tianjin Shi Yi Yao Company (天津市醫藥公司) entered into a co-operation agreement and a supplemental agreement with Tianjin Guo Jin Investment Company Limited (天津國津投資有限公司) and Tianjin Shi He Xi Qu Bei Fang Dai Yao Fang (天津市河西區北方大藥房) to operate the business division of Tianjin Shi Yi Yao Company (天津市醫藥公司) under the name of Jin Shun ("Co-operation Agreement"). Tianjin Shi Yi Yao Company (天津市醫藥公司) 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, Tianjin Shi Yi Yao Company (天津市醫藥公司) receives an annual fee but is not entitled to the profit of Jin Shun. Tianjin Guo Jin Investment Company Limited (天津國津投資有限公司) and Tianjin Shi He Xi Qu Bei Fang Dai Yao Fang (天津市河西區北方大藥房) are responsible for all the financial resources required by Jin Shun and the day-to-day operation of Jin Shun. Each of Tianjin Guo Jin Investment Company Limited (天津國津投資有限公司) and Tianjin Shi He Xi Qu Bei Fang Dai Yao Fang (天津市河西區北方大藥房) is entitled to the profit generated by Jin Shun in proportion to their respective interests in Jin Shun.

Jin Shun has historically been managed as a business division of Tianjin Shi Yi Yao Company (天津市醫藥公司) and the operating assets, liabilities and results of Jin Shun have been historically included as separately identifiable division within Tianjin Shi Yi Yao Company (天津市醫藥公司), a legal entity in the PRC.

Other than the annual fee paid to Tianjin Shi Yi Yao Company (天津市醫藥公司), no common overhead expenses of Tianjin Shi Yi Yao Company (天津市醫藥公司) are allocated to Jin Shun by Tianjin Shi Yi Yao Company (天津市醫藥公司).

Intercompany transactions between Jin Shun and Tianjin Shi Yi Yao Company (天津市醫藥公司) are disclosed in note 4(g). The amounts recorded for these transactions are not necessarily representative of the amounts that would have been reflected in the financial statements had Jin Shun been an entity operated independently of Tianjin Shi Yi Yao Company (天津市醫藥公司).

As Jin Shun is a business division of Tianjin Shi Yi Yao Company (天津市醫藥公司) and not a separate legal entity, all of its profits or losses were combined into the results of its head office for tax purposes.

The financial statements of Jin Shun for the Relevant Periods were prepared by the management of Jin Shun in accordance with the applicable principles and financial regulations in the PRC for internal reporting purposes.

For the purpose of this report, the management of Jin Shun have prepared the financial statements of Jin Shun for the Relevant Periods in accordance with accounting principles generally accepted in Hong Kong ("HKGAAP") and accounting policies materially consistent with those adopted by Sanyuan Group Limited. The management of Jin Shun is responsible for preparing the financial statements under HKGAAP which give a true and fair view. In preparing the financial statements under HKGAAP, it is fundamental that appropriate accounting principles are selected and applied consistently. We have carried out independent audit procedures on the financial statements under HKGAAP of Jin Shun in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") .

The summaries of the income statements, the statements of changes in owners' equity and the cash flow statements of Jin Shun for the Relevant Periods and of the balance sheets of Jin Shun as at 31st December, 2003, 31st December, 2004 and 30th April, 2005 together with the notes thereon (the "Financial Information") set out in this report have been prepared by the management of Jin Shun based on the financial statements under HKGAAP. We have examined the Financial Information of Jin Shun for the Relevant Periods, and have carried out such additional procedures as we considered necessary, in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the HKICPA.

The directors of Sanyuan Group Limited are responsible for the contents of the Circular in which this report is included. It is our responsibility to form an independent opinion based on our examination on the Financial Information and to report our opinion solely to you.

In our opinion, the Financial Information, for the purpose of this report and prepared on the basis set out in Section 1 in this report, gives a true and fair view of the state of affairs of Jin Shun as at 31st December, 2003, 31st December, 2004 and 30th April, 2005, and of the results and cash flows of Jin Shun for the Relevant Periods.

The comparative income statement, statement of changes in owners' equity and cash flow statement for the four months ended 30th April, 2004, together with the notes thereon have been extracted from the unaudited financial information of Jin Shun for the same period (the "Comparative Financial Information") which was prepared by management of Jin Shun. We have reviewed the Comparative Financial Information in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the HKICPA. Our review consisted principally of making enquiries of management of Jin Shun and applying analytical procedures to the Comparative Financial Information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as test of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the Comparative Financial Information. On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the Comparative Financial Information.

1. BASIS OF PREPARATION

The Financial Information has been prepared based on the financial statements prepared under HKGAAP of Jin Shun for the Relevant Periods and under the historical cost convention, after making such adjustments as the management of Jin Shun considered appropriate for the purpose of this report.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005. Based on the assessment of the management of Jin Shun, the adoption of the new HKFRSs would not have a significant impact on Jin Shun's results of operations and financial position and how the results of operations and financial position of Jin Shun of the Relevant Periods are prepared and presented.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted by Jin Shun in arriving at the Financial Information set out in this report are set out below.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to Jin Shun and when the revenue and costs, if applicable, can be measured reliably, and on the following basis:

a. Revenue from the sales of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

b. Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Major costs incurred in restoring assets to their normal working conditions are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives.

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment, over their estimated useful lives from the date on which they become fully operational and after taking into account of their estimated residual values, using the straight-line method, at the following rates per annum:

Leasehold improvements	Shorter of the lease term and estimated useful lives
Machinery and equipment	20%

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in-first-out basis and includes all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling prices in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Trade receivables

Provision is made against trade receivables to the extent they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

Impairment loss

At each balance sheet date, the management of Jin Shun reviewed internal and external sources of information to determine whether the carrying amounts of its tangible and intangible assets have suffered an impairment loss or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its net selling price and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the management of Jin Shun estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. a cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

A reversal of impairment losses is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior periods/years. Reversal of impairment losses is recognised as income immediately.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals payable under operating leases are recognised as an expense on the straight-line basis over the lease terms.

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when Jin Shun has a present legal or constructive obligation arising as a result of past events, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to be required to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

Cash and cash equivalents

Cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value. For the purposes of the cash flow statement, bank overdrafts which are repayable on demand and form an integral part of Jin Shun's cash management are also included as a component of cash and cash equivalents.

Foreign currencies

The Renminbi ("RMB") is the primary functional currency of Jin Shun's business operations, defined as the economic environment in which Jin Shun primarily generates and expends cash.

For the purpose of this report, the assets and liabilities of Jin Shun denominated in RMB are translated to Hong Kong dollars ("HK$") at the rates of exchange ruling at 31st December, 2003, 31st December, 2004 and 30th April, 2005. Income and expenses are translated into HK$ at the weighted average exchange rates for the periods then ended.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

Employee benefits

Jin Shun is required to contribute to a defined contribution retirement scheme for its eligible employees in the PRC based on a percentage of the relevant employee's monthly salaries in accordance with the relevant government regulations. Contributions to the retirement scheme are charged to the income statements in the period in which they are incurred.

Deferred taxation

Deferred taxation is accounted for using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Segment reporting

A segment is a distinguishable component of Jin Shun that is engaged in either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segment.

3. INCOME STATEMENTS

The following is a summary of the income statements of Jin Shun for the Relevant Periods:

	Note	Four months ended 31st December, 2003 HK$'000	Year ended 31st December, 2004 HK$'000	Four months ended 30th April, 2005 HK$'000	(unaudited) Four months ended 30th April, 2004 HK$'000
Turnover	*(a)*	29,592	113,241	47,391	34,057
Cost of sales		(28,162)	(110,010)	(46,556)	(33,113)
Gross profit		1,430	3,231	835	944
Other revenue	*(a)*	1	47	3	6
Distribution costs		(655)	(1,570)	(425)	(404)
Administrative expenses		(426)	(1,093)	(214)	(421)
Management fee paid to Tianjin Shi Yi Yao Company	*(b)*	(246)	(669)	(224)	(209)
Profit/(loss) from ordinary activities before taxation	*(c)*	104	(54)	(25)	(84)
Income tax	*(d)*	–	–	–	–
Profit/(loss) for the period/year		104	(54)	(25)	(84)

Since Jin Shun is not a company limited by shares, no earnings/(loss) per share is presented.

Note:

(a) Turnover and revenue

Jin Shun is principally engaged in the sale and distribution of pharmaceutical products. Turnover and revenue recognised during the Relevant Periods are as follows:

	Four months ended 31st December, 2003 *HK$'000*	Year ended 31st December, 2004 *HK$'000*	Four months ended 30th April, 2005 *HK$'000*	(unaudited) Four months ended 30th April, 2004 *HK$'000*
Turnover				
Sale and distribution of pharmaceutical products	29,592	113,241	47,391	34,057
Other revenue				
Interest income	1	9	3	2
Sundry income	–	38	–	4
	1	47	3	6
Total revenue	29,593	113,288	47,394	34,063

(b) Management fee paid to Tianjin Shi Yi Yao Company

This represents part of the annual fee paid to Tianjin Shi Yi Yao Company (天津市醫藥公司) in accordance with the Co-operation Agreement. The annual fee paid to Tianjin Shi Yi Yao Company (天津市醫藥公司) include the service fees (under distribution costs and administrative expenses) as disclosed in note 4(g).

(c) Profit/(loss) from ordinary activities before taxation

Profit/(loss) from ordinary activities before taxation is stated after charging the following:

	Four months ended 31st December, 2003 *HK$'000*	Year ended 31st December, 2004 *HK$'000*	Four months ended 30th April, 2005 *HK$'000*	(unaudited) Four months ended 30th April, 2004 *HK$'000*
Cost of inventories sold	28,155	109,985	46,547	33,105
Depreciation	14	50	18	15
Minimum lease payment under operating leases in respect of warehouse *(note 4(g))*	66	198	66	66
Staff costs:				
Salary and allowances	112	352	136	113
Contribution to pension scheme	25	62	23	21

(d) Income tax

According to the relevant tax regulations, Jin Shun is considered as a branch for income tax filing purposes and accordingly, all of its profits or losses were combined into the results of its head office for tax purposes. Consequently, no PRC income tax provision has been made for Jin Shun for the Relevant Periods.

(e) Emoluments for Directors and five highest paid individuals

i) Directors' emoluments

No directors' emoluments were paid during the Relevant Periods as Jin Shun did not have a board of directors or similar corporate governance body.

ii) Five highest paid individuals

Details of emoluments paid to the five highest paid individuals during the Relevant Periods are as follow:–

	Four months ended 31st December, 2003 *HK$'000*	Year ended 31st December, 2004 *HK$'000*	Four months ended 30th April, 2005 *HK$'000*	(unaudited) Four months ended 30th April, 2004 *HK$'000*
Basic salaries, housing allowances, other allowances and benefits in kind	15	45	15	15
Contribution to pension scheme	2	9	2	2
	17	54	17	17

4. BALANCE SHEETS

The following is a summary of the balance sheets of Jin Shun as at 31st December, 2003, 31st December, 2004 and 30th April, 2005:

	Note	**As at 31st December, 2003** *HK$'000*	**As at 31st December, 2004** *HK$'000*	**As at 30th April, 2005** *HK$'000*
NON-CURRENT ASSETS				
Property, plant and equipment	*(a)*	196	199	181
CURRENT ASSETS				
Inventories – pharmaceutical products, at cost		2,204	5,169	5,760
Trade and other receivables	*(b)*	22,541	31,198	37,045
Bank and cash balances	*(c)*	1,103	3,904	2,163
		25,848	40,271	44,968
CURRENT LIABILITIES				
Trade and other payables	*(d)*	17,201	24,236	35,522
Loans from a related party	*(e)*	6,947	8,476	1,357
		24,148	32,712	36,879
NET CURRENT ASSETS		1,700	7,559	8,089
TOTAL ASSETS LESS CURRENT LIABILITIES		1,896	7,758	8,270
NON-CURRENT LIABILITIES				
Long term loans from related parties	*(f)*	1,792	7,708	8,245
NET ASSETS		104	50	25
Financed by:				
OWNERS' EQUITY		104	50	25

Note:

(a) **Property, plant and equipment**

	Machinery and equipment *HK$'000*	Leasehold improvements *HK$'000*	Total *HK$'000*
Cost			
As at 1st September, 2003	–	–	–
Additions	–	210	210
As at 31st December, 2003 and as at 1st January, 2004	–	210	210
Additions	53	–	53
As at 31st December, 2004 and as at 1st January, 2005	53	210	263
Additions	–	–	–
As at 30th April, 2005	53	210	263
Aggregate depreciation			
As at 1st September, 2003	–	–	–
Charge for the period	–	14	14
As at 31st December, 2003 and as at 1st January, 2004	–	14	14
Charge for the year	8	42	50
As at 31st December, 2004 and as at 1st January, 2005	8	56	64
Charge for the period	4	14	18
As at 30th April, 2005	12	70	82
Net book value			
As at 31st December, 2003	–	196	196
As at 31st December, 2004	45	154	199
As at 30th April, 2005	41	140	181

(b) Trade and other receivables

	As at 31st December, 2003 *HK$'000*	As at 31st December, 2004 *HK$'000*	As at 30th April, 2005 *HK$'000*
Trade receivables	22,186	29,247	35,308
Deposits, prepayment and other debtors	355	1,951	1,737
	22,541	31,198	37,045

The ageing analysis of trade receivables is as follows:

	As at 31st December, 2003 *HK$'000*	As at 31st December, 2004 *HK$'000*	As at 30th April, 2005 *HK$'000*
Between 0 to 30 days	9,565	9,880	12,690
Between 31 to 60 days	6,089	10,467	7,656
Between 61 to 90 days	4,697	4,231	5,182
Between 91 to 180 days	1,835	3,743	8,256
Between 181 to 365 days	–	926	1,514
Over 1 year	–	–	10
	22,186	29,247	35,308

Customers are generally granted with credit terms of 30 to 180 days.

(c) Bank and cash balances

Bank and cash balances of Jin Shun were deposited with banks and held in the PRC and denominated in RMB. The conversion of these balances into foreign currencies is subject to Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations of the PRC.

(d) Trade and other payables

	As at 31st December, 2003 *HK$'000*	As at 31st December, 2004 *HK$'000*	As at 30th April, 2005 *HK$'000*
Trade payables	16,905	23,647	34,353
Other payables and accruals	31	139	773
Amounts due to related parties	265	450	396
	17,201	24,236	35,522

The ageing analysis of trade payables is as follows:

	As at 31st December, 2003 *HK$'000*	As at 31st December, 2004 *HK$'000*	As at 30th April, 2005 *HK$'000*
Between 0 to 30 days	8,950	7,198	10,969
Between 31 to 60 days	4,319	6,376	9,032
Between 61 to 90 days	2,260	6,447	3,126
Between 91 to 180 days	1,376	1,531	8,902
Between 181 to 365 days	–	2,049	1,805
Over 1 year	–	46	519
	16,905	23,647	34,353

(e) Loans from a related party

The loans were provided by Tianjin Shi He Xi Qu Bei Fang Dai Yao Fang (天津市河西區北方大藥房), in which Mr. Zhang Wei (張偉), a manager of Jin Shun, is interested as the sole proprietor. The amount was unsecured, interest free and had no specific repayment terms.

(f) Long term loans from related parties

The loans were provided by Tianjin Guo Jin Investment Company Limited (天津國津投資有限公司) and Guochao (Tianjin) Guo Ji Mao Yi Limited (國超(天津)國際貿易有限公司), in which Mr. Zhao Geng (趙賡), a manager of Jin Shun, has beneficial interests in these companies. The amounts were unsecured, interest free and not repayable within the next twelve months.

(g) Related party transactions

	Note	Four months ended 31st December, 2003 HK$'000	Year ended 31st December, 2004 HK$'000	Four months ended 30th April, 2005 HK$'000	(unaudited) Four months ended 30th April, 2004 HK$'000
Sales to Tianjin Pharmaceutical Holdings, Ltd. (天津太平(集團)有限公司) and its group companies	*(i)*	2,763	4,124	1,647	1,600
Purchase from Tianjin Pharmaceutical Holdings, Ltd. (天津太平(集團)有限公司) and its group companies	*(i)*	6,647	11,903	5,580	4,310
Warehouse rental paid to Tianjin Pharmaceutical Holdings, Ltd. (天津太平(集團)有限公司)	*(i)*	66	198	66	66
Sales to Tianjin Shi Yi Yao Company (天津市醫藥公司)		–	123	24	–
Purchase from Tianjin Shi Yi Yao Company (天津市醫藥公司)		–	1,934	710	105
Service fees paid to Tianjin Shi Yi Yao Company (天津市醫藥公司)		70	345	108	111
Sales to Liaoning Taiping Pharmaceutical Ltd. (遼寧太平醫藥有限公司)	*(ii)*	–	1,076	–	82
Purchase from Liaoning Taiping Pharmaceutical Ltd. (遼寧太平醫藥有限公司)	*(ii)*	377	15,722	6,805	1,318
Office premises provided rent free by Mr. Zhao Geng (趙賡) and Mr. Zhang Wei's (張偉) spouse	*(iii)*	75	226	75	75

Note:

(i) The key management of Tianjin Pharmaceutical Holdings, Ltd. (天津太平(集團)有限公司) is the same as that of Tianjin Shi Yi Yao Company (天津市醫藥公司).

(ii) Liaoning Taiping Pharmaceutical Ltd. (遼寧太平醫藥有限公司) is a related company of Tianjin Pharmaceutical Holdings, Ltd. (天津太平(集團)有限公司).

(iii) The rental value of office premises stated above is the open market rental value estimated by Mr. Zhao Geng (趙賡), a director, shareholder and legal representative of Tianjin Guo Jin Investment Company Limited (天津國津投資有限公司) and Mr. Zhang Wei (張偉), the sole proprietor of Tianjin Shi He Xi Qu Bei Fang Dai Yao Fang (天津市河西區北方大藥房).

5. STATEMENTS OF CHANGES IN OWNERS' EQUITY

The statements of changes in owners' equity of Jin Shun for the Relevant Periods are as follows:

	Retained profits
	HK$'000
As at 1st September, 2003	–
Profit for the period	104
As at 31st December, 2003 and 1st January, 2004	104
Loss for the year	(54)
As at 31st December, 2004 and 1st January, 2005	50
Loss for the period	(25)
As at 30th April, 2005	25
As at 1st January, 2004	104
Loss for the period	(84)
As at 30th April, 2004 (unaudited)	20

Jin Shun does not have a share capital during the Relevant Periods as it is a business division of Tianjin Shi Yi Yao Company (天津市醫藥公司).

6. CASH FLOW STATEMENTS

The cash flow statements of Jin Shun for the Relevant Periods are as follows:

	Four months ended 31st December, 2003 *HK$'000*	Year ended 31st December, 2004 *HK$'000*	Four months ended 30th April, 2005 *HK$'000*	(unaudited) Four months ended 30th April, 2004 *HK$'000*
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit/(loss) before taxation	104	(54)	(25)	(84)
Adjustments for:				
Interest income	(1)	(9)	(3)	(2)
Depreciation	14	50	18	15
Operating profit/(loss) before working capital changes	117	(13)	(10)	(71)
Increase in inventories	(2,204)	(2,965)	(591)	(1,201)
Increase in trade and other receivables	(22,541)	(8,657)	(5,847)	(2,942)
Increase in trade and other payables	17,201	7,035	11,286	3,863
Net cash (outflow)/inflow from operating activities	(7,427)	(4,600)	4,838	(351)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	1	9	3	2
Payment for acquisition of property, plant and equipment	(210)	(53)	–	(53)
Net cash (outflow)/inflow from investing activities	(209)	(44)	3	(51)
CASH FLOWS FROM FINANCING ACTIVITIES				
Long term loans from related parties	1,792	5,916	537	189
Short term loans from a related party	6,947	5,892	1,441	3,274
Repayment of short term loans to a related party	–	(4,363)	(8,560)	(943)
Net cash inflow/(outflow) from financing activities	8,739	7,445	(6,582)	2,520
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	1,103	2,801	(1,741)	2,118
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD/YEAR	–	1,103	3,904	1,103
CASH AND CASH EQUIVALENTS AT END OF PERIOD/YEAR	1,103	3,904	2,163	3,221
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS				
Bank and cash balances	1,103	3,904	2,163	3,221

7. SEGMENT INFORMATION

All assets and liabilities of Jin Shun are located in the PRC and its operations are considered by the management of Jin Shun to belong to one business segment of sale and distribution of pharmaceutical products in the PRC. Consequently, no further analysis of Jin Shun's business and geographical segments is disclosed.

8. SUBSEQUENT EVENTS

No significant events took place subsequently to 30th April, 2005.

9. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Jin Shun in respect of any period subsequent to 30th April, 2005.

Yours faithfully,
RSM Nelson Wheeler
Certified Public Accountants
Hong Kong

A. UNAUDITED PRO FORMA BALANCE SHEET OF THE ENLARGED GROUP

Set out below is an illustrative and unaudited pro forma balance sheet of the Enlarged Group as at 31st December, 2004 which has been prepared for the purpose of illustration as if the completion of the Subscription Agreement had taken place on 1st September, 2003 and immediately after that, the Group's RMB18 million capital injection to the JV Company had taken place on Jin Shun.

The unaudited pro forma balance sheet of the Enlarged Group is based on the consolidated balance sheet of the Group as at 31st December, 2004 as set out in Appendix I to this circular and the balance sheet of Jin Shun as at 31st December, 2004 as set out in Appendix II to this circular, after giving effect to the pro forma adjustments that are necessary and described below.

As the unaudited pro forma balance sheet of the Enlarged Group is prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group as at the date to which it is made up or at any future date.

(Expressed in HK$'000)	**The Group as at 31st December, 2004**	**Jin Shun as at 31st December, 2004**	*Note*	**Pro forma adjustments**	**Pro forma Enlarged Group**
Non-current assets					
Interest in subsidiary	–	–	*b*	16,981	–
			c	(16,981)	
Property, plant and equipment	643	199	*e*	(199)	643
	643	199			643
Current assets					
Other investments	581	–			581
Inventories-pharmaceutical products, at cost	–	5,169			5,169
Trade and other receivables	785	31,198			31,983
Bank balances and cash	720	3,904	*a*	29,000	33,624
			b	(16,981)	
			c	16,981	
	2,086	40,271			71,357
Current liabilities					
Borrowings	10,925	–			10,925
Trade and other payables	20,900	24,236			45,136
Loans from a related party	–	8,476	*e*	(8,476)	–
Provisions	18,850	–			18,850
	50,675	32,712			74,911
Net current (liabilities)/assets	(48,589)	7,559			(3,554)
Total assets less current liabilities	(47,946)	7,758			(2,911)
Non-current liabilities					
Long term loans from related parties	–	7,708	*e*	(2,994)	4,714
Convertible note	–	–	*a*	30,000	30,000
	–	7,708			34,714
Minority interests	–	–	*d*	20	11,291
			e	11,271	
NET (LIABILITIES)/ASSETS	(47,946)	50			(48,916)
CAPITAL AND RESERVES					
Issued capital	19,078	–			19,078
Reserves	57,176	–	*a*	(1,000)	56,176
Retained profit/(Accumulated losses)	(124,200)	50	*d*	(20)	(124,170)
	(47,946)	50			(48,916)

Note:

(a) This adjustment is made to illustrate the effect of the Company's issue of zero coupon convertible note of HK$30,000,000, net of issuance costs of approximately HK$1,000,000. Details of the convertible note are disclosed in the Letter from the Board in this circular.

(b) According to the joint venture agreement (the "JV Agreement") dated 28th April, 2005 as set out in Letter from the Board in this circular, the Group shall inject RMB18 million into Tianjin Jinshun Pharmaceutical Company Limited ("JV Company").

Upon completion of capital injection by all relevant parties into the JV Company and all the conditions to the JV Agreement being satisfied, the Group would own 60% of the equity interest of the JV Company.

For the purpose of this pro forma financial information, it is assumed that the RMB18 million injection of capital had been injected into Jin Shun on 1st September, 2003. The adjustment is made to illustrate the above assumption.

(c) This adjustment is made to illustrate the effect of consolidating the bank balances arising from injected capital of RMB18 million into the Enlarged Group's pro forma consolidated balance sheet and the consolidation adjustment representing the elimination of the Group's interests in the JV Company on pro forma consolidation.

(d) This adjustment is made to reflect the results shared by the PRC Parties in the Enlarged Group's pro forma balance sheet, assuming the Group had 60% equity interest in Jin Shun since 1st September, 2003.

(e) Referring to the JV Agreement, if the net value of the assets and liabilities contributed by the PRC Parties exceeds RMB12 million (HK$11,321,000), the excess will be treated as an interest bearing shareholders' loan from the PRC Parties to the JV Company.

This adjustment is made to illustrate the assumption that the above was executed by the PRC Parties on 31st December, 2004 with Jin Shun's current assets less trade and other payables at that date. The net assets that assumed to have been injected was amounted to RMB16,997,000 (HK$16,035,000). Based on the above assumption, the excess of RMB4,997,000 (HK$4,714,000) injected by the PRC Parties would be treated as interest bearing shareholders' loan.

B. UNAUDITED PRO FORMA INCOME STATEMENT OF THE ENLARGED GROUP

Set out below are the illustrative and unaudited pro forma income statement of the Enlarged Group for the year ended 31st December, 2004 which have been prepared for the purpose of illustration as if the completion of the Subscription Agreement had taken place on 1st September, 2003 and immediately after that, the Group's RMB18 million capital injection to the JV Company had taken place on Jin Shun.

The unaudited pro forma income statement of the Enlarged Group is based on the consolidated income statement of the Group for the year ended 31st December, 2004 as set out in Appendix I to this circular and the income statement of Jin Shun for the year ended 31st December, 2004 as set out in Appendix II to this circular, after making pro forma adjustments that are necessary and described below.

As the unaudited pro forma income statement of the Enlarged Group is prepared for illustrative purposes only and because of its nature, it may not give a true picture of the results of the Enlarged Group for the financial period in respect of which it is prepared or for any future financial period.

(Expressed in HK$'000)	**The Group for the year ended 31st December, 2004**	**Jin Shun for the year ended 31st December, 2004**	*Note*	**Pro forma adjustments**	**Pro forma Enlarged Group**
Turnover	1,169	113,241			114,410
Other revenue	–	47			47
Other income	383	–			383
Cost of sales	–	(110,010)			(110,010)
Material cost for service income	(418)	–			(418)
Depreciation	(321)	(50)			(371)
Staff costs	(5,424)	(414)			(5,838)
Other operating expenses	(5,103)	(2,868)			(7,971)
Operating loss before provisions and other losses and gains	(9,714)	(54)			(9,768)
Holding gain on other investments	217	–			217
Profit on disposal of other investments	53	–			53
Gain on disposal of subsidiaries	21,492	–			21,492
Loss on disposal of an associate	(1)	–			(1)
Gain on disposal of property, plant and equipment	7	–			7
Provision for doubtful trade and other receivables	(3,571)	–			(3,571)
Gain on discharge of bank and other indebtedness	217,415	–			217,415
Profit/(loss) from operations	225,898	(54)			225,844
Finance costs	(9,641)	–			(9,641)
Profit/(loss) from ordinary activities before taxation	216,257	(54)			216,203
Taxation *(Note b)*	–	–			–
Profit/(loss) from ordinary activities	216,257	(54)			216,203
Minority interests	1,290	–	*a*	22	1,312
Profit/(loss) attributable to shareholders	217,547	(54)			217,515

Note:

(a) This adjustment is made to reflect the results shared by the PRC Parties in the Enlarged Group's pro forma income statement, assuming the Group had 60% equity interest in Jin Shun since 1st September, 2003.

(b) No Hong Kong Profits Tax has been provided as the Group has no assessable profit for the year and no Enterprise Income Tax has been provided as Jin Shun was a business division of Tianjin Shi Yi Yao Company, and all of its profits or losses were combined into the results of Tianjin Shi Yi Yao Company for income tax purposes. Upon commencement of business of the JV Company, the JV Company will be subject to the relevant tax applicable in the PRC, including but not limit to Value Added Tax and Enterprise Income Tax.

C. UNAUDITED PRO FORMA CASH FLOW STATEMENT OF THE ENLARGED GROUP

Set out below are the illustrative and unaudited pro forma cash flow statement of the Enlarged Group for the year ended 31st December, 2004 which have been prepared for the purpose of illustration as if the completion of the Subscription Agreement had taken place on 1st September, 2003 and immediately after that, the Group's RMB18 million capital injection to the JV Company had taken place on Jin Shun.

The unaudited pro forma cash flow statement of the Enlarged Group is based on the consolidated cash flow statement of the Group for the year ended 31st December, 2004 as set out in Appendix I to this circular and the cash flow statement of Jin Shun for the year ended 31st December, 2004 as set out in Appendix II to this circular, after making pro forma adjustments that are necessary and described below.

As the unaudited pro forma cash flow statement of the Enlarged Group is prepared for illustrative purposes only and because of its nature, it may not give a true picture of the cash flows of the Enlarged Group for the financial period in respect of which it is prepared or for any future financial period.

(Expressed in HK$'000)	**The Group for the year ended 31st December, 2004**	**Jin Shun for the year ended 31st December, 2004**	*Note*	**Pro forma adjustments**	**Pro forma Enlarged Group**
Net cash used in operation	(10,428)	(4,600)			(15,028)
INVESTING ACTIVITIES					
Interest received	–	9			9
Payment for acquisition of property, plant and equipment	(576)	(53)			(629)
Other investing activities	206	–			206
Net cash used in investing activities	(370)	(44)			(414)
FINANCING ACTIVITIES					
Long term loans from related parties	–	5,916	*b*	(189)	5,727
Short term loans from a related party	–	5,892	*b*	(2,393)	3,499
Repayment of short term loans to a related party	–	(4,363)			(4,363)
Capital injection from Party C and Party D	–	–	*b*	2,582	2,582
Other financing activities	10,884	–			10,884
Net cash inflow from financing activities	10,884	7,445			18,329
NET INCREASE IN CASH AND CASH EQUIVALENTS	86	2,801			2,887
Cash and cash equivalents at beginning of year	(49,972)	1,103	*a*	29,000	(19,869)
Bank overdrafts discharged	50,606	–			50,606
CASH AND CASH EQUIVALENTS AT END OF YEAR	720	3,904			33,624

Notes:

(a) This adjustment is made to illustrate the cash flow effect of the net proceeds of approximately HK$29,000,000 from the Company's issue of zero coupon convertible note.

(b) This adjustment is made to reflect the capitalisation of loan advanced from Party C and its related company, and Party D during the year. As at 1st January, 2004, Party C and Party D had altogether advanced loans of RMB9,263,000 (HK$8,739,000) to Jin Shun, and such amount was assumed to be capitalised during the period from 1st September, 2003 to 31st December, 2003. Party C and its related company, and Party D had further advanced totally RMB7,891,000 (HK$7,445,000) to Jin Shun during the year ended 31st December, 2004 in which RMB2,737,000 (HK$2,582,000) was assumed to be capitalised in order to complete the assumed capital injection of RMB12 million (HK$11,321,000) from the PRC Parties.

D. LETTER FROM THE REPORTING ACCOUNTANTS

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, RSM Nelson Wheeler, Certified Public Accountants, Hong Kong.

RSM Nelson Wheeler
羅 申 美 會 計 師 行
Certified Public Accountants

7th Floor, Allied Kajima Building
138 Gloucester Road, Hong Kong

19th August, 2005

The Board of Directors
Sanyuan Group Limited
Suite 1429, 14th Floor
Ocean Centre
5 Canton Road
Tsimshatsui, Kowloon
Hong Kong

Dear Sirs,

Sanyuan Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group")

We report on the pro forma financial information set out on pages 94 to 99 under the headings of unaudited pro forma balance sheet of the Enlarged Group, unaudited pro forma income statement of the Enlarged Group and unaudited pro forma cash flow statement of the Enlarged Group (hereinafter collectively referred to as the "Pro Forma Financial Information of the Enlarged Group") in Appendix III of the Company's circular (the "Circular") dated 19th August, 2005 in connection with a proposal to issue HK$30,000,000 zero coupon convertible note ("Subscription") and the formation of Tianjin Jinshun Pharmaceutical Company Limited, a Sino-foreign joint venture in the PRC, which constitutes a very substantial acquisition ("Very Substantial Acquisition") pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Pro Forma Financial Information of the Enlarged Group has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Subscription and the Very Substantial Acquisition might have affected the relevant financial information of the Group as at 31st December, 2004 and for the year then ended.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the Pro Forma Financial Information of the Enlarged Group in accordance with Paragraph 29 of Chapter 4 of the Listing Rules.

It is our responsibility to form an opinion, as required by Paragraph 29 of Chapter 4 of the Listing Rules, on the Pro Forma Financial Information of the Enlarged Group and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information of the Enlarged Group beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work with reference to the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 "Reporting on pro forma financial information pursuant to the Listing Rules" issued by the Auditing Practices Board in the United Kingdom, where applicable. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information of the Enlarged Group with the directors of the Company.

Our work does not constitute an audit or review in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, and accordingly, we do not express any such assurance on the Pro Forma Financial Information of the Enlarged Group.

The Pro Forma Financial Information of the Enlarged Group has been prepared on the basis set out on pages 94 to 99 of Appendix III to the Circular for illustrative purpose only and, because of its nature, it may not be indicative of the financial position and results of the Group had the Subscription and the Very Substantial Acquisition actually occurred on 1st September, 2003 or at any future dates or for any future periods.

Opinion

In our opinion:

(a) the Pro Forma Financial Information of the Enlarged Group has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purpose of the Pro Forma Financial Information of the Enlarged Group as disclosed pursuant to Paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,
RSM Nelson Wheeler
Certified Public Accountants
Hong Kong

E. MANAGEMENT DISCUSSION AND ANALYSIS

1. Business review of the Group and Jin Shun

Review for the year ended 31st December, 2002 of the Group

OVERVIEW

The Group has made certain progress in its business restructuring during the year. A substantial part of the property portfolio has been disposed of during the year to generate cash to reduce debt level and interest expenses of the Group. Another non-core operation, the transportation business of the Group, had been discontinued in the last quarter of the year to constrain operating expenses of the Group. Cost cutting measures were also undertaken by the Group to reduce its administrative expenses. After the acquisition of GenePro Medical Biotechnology Limited ("GenePro") in the end of 2001, some of the Group's available resources have been put into this pharmaceutical/bio-pharmaceutical unit in Hong Kong. In October 2002, the Company had completed a capital reorganisation scheme which included a reduction of capital, cancellation of share premium, increase of the authorised share capital and consolidation of shares, further details of which are set out in note 22(b) to the financial statements. Nominal value of the shares of the Company has been adjusted from HK$0.20 to HK$0.02. As a result of the capital reorganisation, the Company has more flexibility to raise funds by issuing new shares when the opportunity arises. In order to improve the financial position of the Group, the Group is still negotiating with its creditor banks in respect of the debt restructuring plan. The Group is also in discussions with certain potential investors for making investments in the Group. However, no agreement has yet been reached.

FINANCIAL RESULTS

The Group recorded a consolidated turnover of HK$6,785,000 for the year, representing a decrease of approximately 73.1% as compared with that of last year. This decline was mainly due to the drop of rental income as the Group continued to dispose of its investment properties and the reduction of income as a result of the termination of the sand trading business in 2001 and the scaling down of the transportation business during the year. The operating loss before provisions and other losses and gains dropped from HK$20,452,000 in 2001 to HK$12,966,000 this year, representing a decrease of approximately 36.6%. This was mainly caused by the termination of the sand trading business and the scaling down of the loss-making transportation business as well as the adoption of effective cost cutting measures. The net loss of the Group for the year amounted to HK$139,393,000, representing a decrease of approximately 53.3% over that of last year. Such net loss was mainly attributable to: (i) the additional provision made in respect of corporate guarantees provided to creditor banks for certain subsidiaries of Singapore Hong Kong Properties Investment Limited ("SHKP") as a result of the revaluation deficit from the pledged properties owned by SHKP; (ii) the revaluation deficit from properties owned by the Group; and (iii) the pre-operating expenses and impairment loss in respect of the Group's associated company in the People's Republic of China ("PRC").

As a result of the continued reduction of bank borrowings during the year, interest expense was reduced to HK$24,875,000, representing a decrease of approximately 33.7% over that of last year.

Loss per share was 45 HK cents as compared to 96.2 HK cents (after adjustment for share consolidation) for last year, representing a decrease of approximately 53.2%.

REVIEW OF OPERATION

The rental income of the year amounted to HK$5,304,000, representing a decrease of approximately 52.3% as compared with that of last year. Such decrease was mainly attributable to the disposal of a substantial portion of the Group's property portfolio in this year. Total proceeds from the disposals during the year amounted to HK$100,456,000, which were mainly used to repay bank borrowings. As the secondary property market conditions in Hong Kong continued to remain sluggish and prices continued to decline, the Group has written down the value of its property assets for a total of HK$8,838,000, representing a decrease of approximately 95.5% as compared with that of last year. In August 2002, the properties of the Group located at Convention Plaza were taken possession by the receivers appointed by its mortgagee bank. The Group is aware that such properties were disposed of subsequent to the year end and no material negative impact on the Group is expected therefrom. The Group will continue to dispose of its remaining property portfolio. In November 2002, the Group acquired a 20% interest in Biosonic Limited, the principal activity of which is the provision of general property related consultancy services, with the view of broadening its source of revenue. However the contribution of this associated company to the Group was insignificant for the year.

As a result of the scaling down of the transportation business, income generated therefrom reduced significantly from HK$4,364,000 in 2001 to HK$647,000 in 2002, representing a decrease of approximately 85.2%. Nevertheless, the operating loss of this business unit reduced substantially from HK$14,222,000 for last year to HK$1,471,000 for this year, representing a decrease of approximately 89.7%. Apart from scaling down the operation of the transportation business, the Group had also disposed of certain assets of this business unit, such disposals had generated total proceeds of approximately HK$4,773,000, which were mainly used as additional working capital of the Group. In view of the lacklustre general trading and economic conditions of Hong Kong in the near future, the Group had discontinued the operation of its transportation business in the last quarter of 2002.

The Group is the 49% equity partner of a wholly foreign-owned enterprise established in Beijing, the PRC ("WFOE"), which is intended to engage in the pharmaceutical/bio-pharmaceutical business in the PRC. During the year, the Group had been in discussion with the other 51% equity partner of the WFOE as to which projects should be invested by the WFOE. However, no agreement between the partners of the WFOE could be reached and as such, the WFOE had not commenced operation yet. The pre-operating expenses incurred by the WFOE during the year had been provided for by the Group. In view of this deadlock situation and the current financial position of the Group, the Group entered into a conditional sale and purchase agreement with an independent party in relation to the disposal of its 49% interest in the WFOE on 27th March, 2003. Total consideration for the disposal will be HK$12,000,002, of which HK$3,000,000, HK$1,000,000 and HK$8,000,000 are intended to be used to finance the operation of GenePro, settle the indebtedness owed to a creditor bank and as additional working capital of the Group respectively. As a result, an impairment loss on the interest in the associate of HK$7,598,000 was incurred. Further details of the sale and purchase agreement are set out in note 31(c) to the financial statements. The turnover of GenePro amounted to HK$834,000 for 2002, the first year of full-year operation after its acquisition by the Group in December 2001. GenePro has been engaged in research and development of genetically engineered products and provision of DNA testing services in the molecular diagnosis of diseases and personal identity. It is one of the leading laboratories in Hong Kong that has the capability to develop and provide DNA related diagnostic services. With the funding from the disposal of the WFOE, GenePro will be able to develop and commercialise its diagnostic products in the future. As the Group decided to concentrate its resources in Hong Kong at this stage, the testing centre of GenePro in Huizhou established in the first half of the year was closed toward the end of the year.

There were no significant changes with regard to the other activities of the Group as compared to last year. Save as mentioned above, there were no material acquisitions and disposals of subsidiaries and associated companies in the year under review.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December, 2002, the Group's total bank borrowings comprising mortgage loans, trust receipt loans and overdrafts amounted to HK$199,317,000, representing a decrease of approximately HK$117,155,000 or 37.0% as compared to that of last year. This was mainly caused by the repayment of bank borrowings with the proceeds from the disposal of properties in this year. All of the total bank borrowings were immediately due and should have been repaid to the relevant creditors. However, total liabilities decreased by only approximately 2.0% to HK$461,367,000 mainly due to the further provision made in respect of corporate guarantees provided to creditor banks for certain subsidiaries of SHKP and the net increase in accrued interest expenses amounting to HK$24,177,000. Current ratio of the Group decreased from approximately 10.0% as at 31st December, 2001 to approximately 3.1% as at 31st December, 2002. This was mainly attributable to the decrease in current assets resulting from repayment of amount due from SHKP, holding losses on other investments and decrease in bank balances and cash. The gearing ratio (total liabilities as a percentage of total assets) increased from approximately 227.6% as of 31st December, 2001 to approximately 806.6% , which was mainly due to the decrease of total assets as referred to above and as a result of the net loss of HK$139,393,000 incurred during the year. As at the end of the year, the Group had a net deficit of HK$405,154,000.

In order to improve its financial position and liquidity, the Group is currently in negotiation with its creditor banks in relation to a debt restructuring plan. The Group is also in discussions with certain potential investors for making investments in the Group.

However, prior to the finalization and completion of the debt restructuring plan, should the Group's creditors demand for repayment of the immediately due borrowings, the Directors currently estimate that the Company may have difficulty in making full repayment immediately. If such circumstance occurs, the Directors currently anticipate that the Group will experience a liquidity problem.

Most of the investments and borrowings of the Group were made in Hong Kong dollars, and the borrowings of the Group were charged at floating interest rates. No financial instrument had been used for hedging purpose, and the Group was not exposed to any material exchange rate fluctuation during the year.

CHARGES ON ASSETS

As at 31st December, 2002, certain assets of the Group with an aggregated carrying value of HK$28,330,000 were pledged to secure the Group's borrowings as compared to HK$133,214,000 as at 31st December, 2001.

EMPLOYEE REMUNERATION POLICY AND NUMBER OF EMPLOYEES

The remuneration policy and package, including the share options, of the Group's employees are maintained at competitive level and reviewed annually by the management. As at 31st December, 2002, the Group had 17 employees and were all based in Hong Kong.

CONTINGENT LIABILITIES

Details of the Group's contingent liabilities as at 31st December, 2002 are set out in note 27 to the audited financial statements for the year ended 31st December, 2002.

Review for the year ended 31st December, 2003 of the Group

OVERVIEW

The Group has made significant progress in its debt restructuring during the year. In June 2003, the Company had executed a settlement deed with one of its creditor banks and Singapore Hong Kong Properties Investment Limited ("SHKP") that the bank would waive our indebtedness amounting to approximately HK$14,493,000 for a consideration of HK$1,000,000. In September 2003, the Company entered into another settlement deed with another creditor bank, SHKP and certain of SHKP's subsidiaries, pursuant to which the creditor bank agreed to discharge and release all the liabilities and obligations of the Company under a guarantee given by the Company in favour of the creditor bank in respect of the banking facilities extended to a SHKP's subsidiary for a consideration of HK$850,000. Also, the Company was notified by its major creditor bank in March 2004 that all the Company's liabilities and obligations under certain guarantees given by the Company in favour of the creditor bank in respect of certain of SHKP's subsidiaries were discharged and released pursuant to the terms of the settlement under the settlement agreement dated 31st December, 2003 made between, inter alia, SHKP, certain of SHKP's subsidiaries and the creditor bank. As a result, provisions previously made against these guarantees and indebtedness amounting to approximately HK$108,265,000 were written back this year.

The remaining property portfolio and other non-core assets of the Group were continued to be disposed of to reduce bank borrowings and generate additional working capital. As most of the Group's loss-making non-core business operations had been terminated and effective cost cutting measures were implemented, operating expenses of the Group were reduced significantly. Despite the negative impact of the SARS incident in the first half of the year, the business of our pharmaceutical/bio-pharmaceutical unit, GenePro Medical Biotechnology Limited ("GenePro"), continued to show encouraging growth on a year on year basis.

The Group is still in negotiation with its creditors in relation to its debt restructuring plan. It is also in discussions with certain potential investors for making investments in and/or providing funding to the Group. However, no formal agreement has yet been reached.

FINANCIAL RESULTS

The Group recorded a consolidated turnover of HK$1,355,000 for the year, representing a decrease of approximately 80.0% as compared with that of last year. This decline was mainly due to the drop of rental income as all the remaining properties had been disposed of and the termination of its transportation business in late 2002.

Despite the decrease in turnover, the operating loss before provisions and other losses and gains dropped approximately 23.9% to HK$11,033,000 this year. This was mainly attributable to the termination of the transportation business and the reduction of property related expenses and administrative expenses. The net result of the Group improved significantly from a net loss of HK$139,393,000 last year to a net profit of HK$96,232,000 this year. Such net profit 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.

Although the bank borrowings of the Group had reduced during the year, interest expense rose to HK$29,450,000, representing an increase of approximately 18.4% over that of last year, as the major creditor bank had charged a higher default interest rate on the outstanding overdraft facilities of the Group.

Earnings per share was HK$0.31 for the year as compared to a loss per share of HK$0.45 for last year.

REVIEW OF OPERATIONS

The rental income of the Group amounted to approximately HK$306,000, representing a decrease of approximately 94.2% as compared with that of last year, since most of the Group's investment properties were disposed of in 2002 and all the remaining properties had been disposed of during the year. All the remaining properties of the Group (including properties located at Convention Plaza and Metropolitan Industrial and Warehouse Building No. 2) were taken possession by its mortgage bank and disposed of for an aggregate consideration of HK$32,600,000, most of which were used to repay bank borrowings. The Group had provided some general property related consultancy services through its 20% owned associated company during the year. However, contribution derived therefrom was insignificant.

As the Group discontinued its transportation business in the last quarter of 2002, no revenue was generated therefrom this year. During the year, the majority of assets were disposed of for a total consideration of HK$2,425,000, all of which were used as additional working capital of the Group. Pursuant to the terms of the acquisition of the 70% interest in the transportation business in 2000, the vendor (who is also a director and shareholder of such transportation business) had made the second and final payment of the profit guarantee during the year. Accordingly, an amount of HK$5,803,000 was recorded as guarantee income this year after setting off the remaining goodwill of HK$1,548,000.

Pacific Engineering Limited ("PEL"), a wholly-owned subsidiary of the Company that has ceased operations since 2001, was ordered by the High Court to be wound up in January 2003. As PEL had a net deficit as at the date of the winding up order, the Group recorded a reversal of losses of subsidiaries on deconsolidation due to the liquidation of PEL amounting to HK$15,378,000 during the year.

The Group was the 49% equity partner of a wholly foreign-owned enterprise established in Beijing, the PRC ("WFOE"), which was intended to engage in the pharmaceutical/bio-pharmaceutical business in the PRC. In March 2003, the Group entered into a conditional sale and purchase agreement with an independent third party in relation to the disposal of its 49% interest in the WFOE for a total consideration of HK$12,000,002. However, such disposal was terminated after 30th June, 2003 as one of the conditions precedent of the agreement (being obtaining the approvals from the relevant PRC authorities) was unable to be satisfied on or before the prescribed deadline of the agreement. Subsequently, the Group entered into another sale and purchase agreement with another independent third party for the same consideration in October 2003 and the disposal was completed in November 2003. There was no profit or loss recorded by the Group as the net book value of the WFOE was also HK$12,000,002.

Despite the negative impact of SARS in the first half of the year, the business of GenePro has shown satisfactory growth. The turnover of GenePro amounted to approximately HK$1,049,000 for the year, representing an increase of approximately 25.8% over that of last year. As one of the leading laboratories in Hong Kong that has the capability to develop and provide DNA related diagnostic services, GenePro has benefited from the growing demand for DNA related diagnostic and personal identity services in Hong Kong. The Group believes that this trend will continue as the advantages and application of DNA technology are getting better understood and acceptance by medical and legal practitioners as well as the community at large.

In terms of research and development, GenePro continues to establish a DNA based diagnostic platform for human identification and infectious diseases. We expect this technology not only will enhance GenePro's diagnostic services but also provide marketable products for the global community.

There were no significant changes with regard to the other activities of the Group as compared to last year. Save as mentioned above, there were no material acquisitions and disposals of subsidiaries and associated companies in the year under review.

LIQUIDITY AND FINANCIAL RESOURCES

In June 2003, the Company entered into a settlement deed with Citic Ka Wah Bank and SHKP, pursuant to the terms of which, among others, the bank would waive the Company's indebtedness amounting to HK$14,493,000 for a consideration of HK$1,000,000. As the Company had made a provision of approximately HK$17,324,000, a write back of provision made in respect of corporate guarantees provided to creditor banks of HK$17,289,000 was recorded by the Group. For further details of the settlement deed, please refer to the Company's announcement dated 16th June, 2003.

In September 2003, the Company entered into a settlement deed with Bank of Communications Hong Kong Branch, SHKP and certain of SHKP's subsidiaries, pursuant to the terms of which, among others, the bank would release the Company's corporate guarantee provided to the bank with a gross exposure of approximately HK$22,643,000 (out of which a provision of HK$8,884,000 had been made) for a consideration of HK$850,000. As a result, a write back of provision made in respect of corporate guarantees provided to creditor banks of HK$8,834,000 was recorded by the Group. For further details of the settlement deed, please refer to the Company's announcement dated 19th September, 2003.

In March 2004, the Company received a notice from Bank of China (Hong Kong) Limited notifying the Company that all the Company's liabilities and obligations under certain guarantees given by the Company in favour of the bank in respect of certain of SHKP's subsidiaries were discharged and released pursuant to the terms of the settlement under the settlement agreement dated 31st December, 2003 made between, inter alia, SHKP, certain of SHKP's subsidiaries and the bank. As the Company had made a provision of approximately HK$82,142,000, a write back of provision made in respect of corporate guarantees provided to creditor banks of the same amount was recorded by the Group this year. For further details of this release of corporate guarantees, please refer to the Company's announcement dated 29th March, 2004.

As at 31st December, 2003, the Group's total bank borrowings comprising mortgage loans, trust receipt loans, overdrafts, bank borrowings assigned to a finance company and accrued interest amounted to HK$256,928,000, representing a decrease of approximately 3.3% as compared to that of last year. This was mainly caused by the repayment of bank borrowings with proceeds from the disposal of properties of the Group and a pledged property of the SHKP group during the year and the increase in accrued interest on the outstanding bank borrowings. All of the total bank borrowings were immediately due and should have been repaid to the relevant creditors. Total liabilities (all of which are of current nature), however, decreased by HK$146,879,000 or approximately 31.8% to HK$314,488,000 mainly due to: (i) the write back of provision as referred to above; (ii) the deconsolidation of subsidiaries as a result of the liquidation of PEL; (iii) the repayment of bank borrowings with proceeds from the disposal of properties as referred to above; and (iv) the repayment of other payables.

Current ratio of the Group decreased from approximately 3.1% as at 31st December, 2002 to approximately 2.0% as at 31st December, 2003. This was mainly attributable to the decrease in current assets resulting from: (i) the decrease in amount due from SHKP arising from the disposal of a pledged property of the SHKP group; (ii) the return of taxation prepayment from Inland Revenue Department; and (iii) the deconsolidation of subsidiaries as a result of the liquidation of PEL. The gearing ratio (total liabilities as a percentage of total assets) increased from approximately 806.6% as at 31st December, 2002 to approximately 4,587.0% as of 31st December, 2003, which was mainly due to: (i) the decrease in non-current assets arising from the disposal of properties, non-core assets and Group's interest in the WFOE; (ii) the decrease in current assets as referred to above; and (iii) the fact that the extent of the decrease in total assets (in terms of percentage) was greater than that of the total liabilities for the year. As at the end of the year under review, the Group had a net deficit of HK$308,922,000.

In order to improve its financial position and liquidity, the Group is currently in negotiation with its remaining creditors in relation to a debt restructuring plan. The Group is also in discussions with certain potential investors for making investment in and/or providing funding to the Group.

However, prior to the finalisation and completion of the debt restructuring plan, should the Group's creditors demand for repayment of its immediately due indebtedness, the directors currently estimate that the Company may have difficulty in making full repayment immediately. If such circumstance occurs, the directors currently anticipate that the Group will experience a liquidity problem.

Most of the cash and cash equivalents, investments and borrowings of the Group were made in Hong Kong dollars, and the borrowings of the Group were charged at floating interest rates. No financial instrument had been used for hedging purpose. As the exchange rates for Hong Kong dollars and Renminbi were relatively stable during the year, the Group was not exposed to any material exchange rate fluctuation during the year.

CHARGE ON ASSETS

As at 31st December, 2003, certain assets of the Group with an aggregated carrying value of HK$378,000 were pledged to secure certain of the Group's borrowings as compared to HK$28,330,000 as at 31st December, 2002.

EMPLOYEE REMUNERATION POLICY AND NUMBER OF EMPLOYEES

The remuneration policy and package, including the share options, of the Group's employees are maintained at competitive level and reviewed annually by the management. As at 31st December, 2003, the Group had 13 employees and all of whom were based in Hong Kong.

CONTINGENT LIABILITIES

Details of the Group's contingent liabilities as at 31st December, 2003 are set out in note 29 to the audited financial statements for the year ended 31st December, 2003.

Review for the four months ended 31st December, 2003 of Jin Shun

Jin Shun commenced its business on 1st September, 2003 and generated a total income from sale of pharmaceutical products of approximately HK$29,592,000 for the four months ended 31st December, 2003. During this 4-month period, Jin Shun recorded a gross profit of approximately HK$1,430,000 and a profit for the period of approximately HK$104,000.

During the period, Jin Shun paid approximately HK$246,000 and HK$70,000 to Tianjin Shi Yi Yao Company as management fee and service fee respectively pursuant to a co-operation agreement (as supplemented) entered into between Tianjin Shi Yi Yao Company, Tianjin Guo Jin Investment Company Limited and Tianjin Shi He Xi Qu Bei Fang Dai Yao Fang in September 2003 (the "Co-operation Agreement"). Excluding these payments to Tianjin Shi Yi Yao Company, Jin Shun would have generated profit of approximately HK$420,000. According to the relevant tax regulations, Jin Shun is considered as a branch for income tax filing purposes and accordingly, all of its profits or losses were combined into the results of its head office for tax purposes. Consequently, no PRC income tax provision has been made for Jin Shun for the period. If Jin Shun had to pay enterprise income tax, the applicable tax rate would be 33%.

As at 31st December, 2003, the total assets of Jin Shun were approximately HK$26,044,000 mainly comprised current assets of approximately HK$25,848,000. As at 31st December, 2004, the total liabilities of Jin Shun was approximately HK$25,940,000 included current liabilities of approximately HK$24,148,000 and non-current liabilities of approximately HK$1,792,000. Among the total liabilities, approximately HK$8,739,000 was loans from the management of Jin Shun. Jin Shun did not have any bank borrowings as at that date. At the end of the period, Jin Shun had a net asset value of approximately HK$104,000. According to the audited financial statements of Jin Shun, the current ratio of Jin Shun was 1.07 times and the gearing ratio (total liabilities as a percentage of total assets) was 99.6%. Since Jin Shun is a business division and is not limited by shares, all the Jin Shun's assets were financed by liabilities either from the external creditors or the related parties instead of equity. As such, low net asset value, low current ratio and relative high leverage of Jin Shun was resulted.

Review for the year ended 31st December, 2004 of the Group

OVERVIEW

Through continuous effort to negotiate with its creditor banks in past years, debt restructuring of the Group had been completed during the year. The Group entered into settlement agreements with its creditor bank and a finance company around mid 2004 in relation to the Group's indebtedness of approximately HK$222,200,000 and HK$3,700,000 respectively. After payment of settlement sums of approximately HK$35,400,000 and HK$600,000 to the creditors by the Group and fulfillment of certain conditions pursuant to the agreements, the remaining balance of the Group's indebtedness was fully discharged by the creditors.

The Company also completed a subscription agreement with and allotted shares to an investor for a consideration of HK$47,000,000 in September 2004. The proceeds from the subscription were mainly used as the settlement sums referred to above. For more details about the settlements and the subscription, please refer to the Company's circular dated 12th August, 2004.

By comparing the business volume in 2004 to 2003, we notice that our pharmaceutical/ healthcare unit, GenePro Medical Biotechnology Limited ("GenePro") continued to show stable growth this year.

With the introduction of the controlling shareholder to the Company, the management of the Group intends to carry on its existing businesses in the health care/pharmaceutical and property sectors and maintaining the listing of the Company on the main board of The Stock Exchange of Hong Kong Limited ("Stock Exchange"). In addition, the management of the Company will continue to look for potential investors for funding to finance potential projects for the development of the Group.

FINANCIAL RESULTS

As the Group disposed of all of its investment properties in 2003 to reduce indebtedness, there was no rental income generated in 2004 and the revenue was wholly contributed by our pharmaceutical/healthcare unit. Turnover recorded by the Group was HK$1,169,000, representing a decrease of approximately 13.7% over that of 2003. However, if we count only our pharmaceutical/ healthcare unit, it achieved a growth of approximately 11.4%.

Pursuant to the settlement agreements with the creditor bank and a finance company, most of the Group's bank indebtedness was settled or fully discharged by the creditors. As a result, interest on bank loans dropped substantially by 68.1% from HK$29,258,000 in 2003 to HK$9,332,000 in 2004.

The operating loss before provisions and other losses and gains continued to drop by 12% from HK$11,033,000 to HK9,714,000 in 2004. The Group also recorded a successive net profit of HK$217,547,000 within the last five years. This represents an increase of 126% when compared with that of 2003. Such improvements in financial results were the result of (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.

Earnings per share increased from HK31 cents in 2003 to HK45.9 cents in 2004.

REVIEW OF OPERATIONS

Following the end of SARS in 2003, the turnover of GenePro returned to a rising trend. Turnover recorded by GenePro was HK$1,169,000 for the year, representing an increase of 11.4% over that of the last year. In spite of this growth, the total turnover of the Group for the year dropped by 13.7% because no income was generated from our property investment segment as all of the investment properties had been disposed of in 2003.

The segment result of our pharmaceutical/healthcare unit had been improving because of cost cutting when GenePro moved to a cheaper but more spacious laboratory in Shatin in April 2004. The Group believes that GenePro will benefit from the growing demand for DNA related diagnostic and personal identification services in Hong Kong. In addition, GenePro plans to commercialise its R&D products and testing kits in response to market demand in the near future.

After debt restructuring of the Group during the year, the Group further reorganized its structure and disposed some of its inactive subsidiaries and an associate to independent third parties. As a result, administrative expenses and liabilities were greatly reduced. Save for the above mentioned, there were no significant changes with regard to the other activities of the Group as compared to the last year. Moreover, there were no material acquisitions and disposals of subsidiaries and associated companies during the year under review.

LIQUIDITY AND FINANCIAL RESOURCES

Around mid 2004, the Group entered into settlement agreements with Bank of China (Hong Kong) Limited (the "Bank") and a finance company in relation to the Group's indebtedness of approximately HK$222,200,000 and HK$3,700,000 respectively. The settlements (save for certain conditions) were completed in October 2004.

According to the settlement agreements between the Group and the Bank dated 30th June, 2004 and 30th September, 2004 ("BOC Agreements"), the Bank confirmed that a bank loan owed by Company and utilized by the Landune International Limited and certain of its subsidiaries ("Landune Group") amounting to approximately HK$34,500,000 had been conditionally discharged and released pursuant to a settlement agreement entered into between Landune Group and the Bank in December 2003.

As a result of the above, a gain on discharge of bank and other indebtedness of approximately HK$217,415,000 was recorded by the Group during the year.

As at 31st December, 2004, the Group's total bank borrowings were comprised of unsecured loans and accrued interests owed by the three subsidiaries of the Company to the Bank in the amount of HK$12,976,000 ("Undischarged Indebtedness"), representing a decrease of approximately HK$243,952,000 or 94.9% as compared to that of the end of 2003.

However, pursuant to the BOC Agreements, the Bank shall not take out or proceed with any claims against the Company for recovering the Undischarged Indebtedness. The Group also agreed with the Bank to wind up the said three subsidiaries. As the winding-up orders have been granted by court on 23rd February, 2005, the Undischarged Indebtedness will be deconsolidated from the Group's financial statements after the year end date and the Group will accordingly be discharged of the obligation to repay the Undischarged Indebtedness. For more details about the Undischarged Indebtedness, please refer to the Company's circular dated 12th August, 2004.

Total liabilities (all of which were of current nature) decreased to HK$50,675,000 by approximately HK$263,813,000 or 83.9%, which was mainly caused by the reduction of bank and other borrowings and accrued interest for the year as mentioned above. Among the total liabilities, HK$12,976,000 was the Undischarged Indebtedness as mentioned above, HK$7,200,000 being the convertible note deposit and HK$1,500,000 being the deposit received both have been settled subsequent to the year end date, HK$10,149,000 was the trade and other payables and amount due to a securities broker and HK$18,850,000 was provisions in respect of legal actions.

Current assets of the Group decreased by approximately HK$4,301,000, mainly due to the decrease in trade and other receivables. The current ratio of the Group improved from 2.0% as at 31st December, 2003 to 4.1% as at 31st December, 2004, as a result of the substantial decrease in bank indebtedness and the reduction of liabilities by disposing of subsidiaries. The gearing ratio (total liabilities as a percentage of total assets) decreased from approximately 4,587.0% to 1,856.9% as at 31st December, 2004, which was mainly due to (i) the decrease in current assets; and (ii) the fact that the extent of decrease in total liabilities was greater than the decrease in total assets for the year. As at 31st December, 2004, the Group had a net capital deficiency of approximately HK$47,946,000.

Although the Group still had a net capital deficiency, the Group's financial position had been substantially improved by debt restructuring and the subscription. As such, the Group will be in a much better position to raise funding for the operations and development of the Group.

Most of the cash and cash equivalents, investments and borrowings of the Group were made in Hong Kong dollars, and the borrowings of the Group were charged at floating interest rates. No financial instrument had been used for hedging purpose. During the year, the Group was not exposed to any material exchange rate fluctuation.

CHARGES ON ASSETS

As at 31st December, 2004, certain assets of the Group with an aggregated carrying value of approximately HK$525,000 were pledged to secure the Group's borrowings as compared to HK$378,000 as at 31st December, 2003.

EMPLOYEE REMUNERATION POLICY AND NUMBER OF EMPLOYEES

As at 31st December, 2004, the Group engaged 16 employees and most of them were based in Hong Kong. The remuneration policy and package, including the share options, of the Group's employees are maintained at competitive level and reviewed annually by the management.

CONTINGENT LIABILITIES

Details of the Group's contingent liabilities as at 31st December, 2004 are set out in note 26 to the audited financial statements for the year ended 31st December, 2004.

Review for the year ended 31st December, 2004 of Jin Shun

Jin Shun's turnover for the year ended 31st December, 2004 was approximately HK$113,241,000 and its gross profit reached HK$3,231,000. Jin Shun recorded a loss of approximately HK$54,000 for 2004. During the year, Jin Shun paid approximately HK$669,000 as management fee and HK$345,000 as service fee to Tianjin Shi Yi Yao Company according to the Co-operation Agreement. If these payments were not accounted for, Jin Shun would have made a profit of approximately HK$960,000. As Jin Shun is a business division, no income tax provision has been made for the year. If Jin Shun had to pay enterprise income tax, the applicable tax rate would be 33%.

As the management of Jin Shun targeted on expansion of its market share and adopted a "small profit but quick returns" policy, Jin Shun's annual sales increased dramatically. Gross profit margin of Jin Shun, as a result, decreased from 4.8% of 2003 to 2.9% of 2004. Nevertheless, given the selling price of pharmaceutical products is regulated by the PRC government and product prices among distributors are highly transparent, the management of Jin Shun believes that the gross profit margin of Jin Shun is largely in line with industry average. In spite of the increase in turnover, distribution costs for the year only amounted to HK$1,570,000. The main components of the distribution costs included (i) sales and marketing expenses; (ii) storage costs; and (iii) delivery costs and all of these expenses increased relatively lesser than the turnover. As a result, the ratio of distribution costs to the turnover dropped from 2.2% for 2003 to 1.4% for 2004.

Gearing ratio (total liabilities as a percentage of total assets) of Jin Shun was 99.9% in 2004 and increased slightly by 0.3% from that of last year. The net assets of Jin Shun as at 31st December, 2004 decreased by approximately HK$54,000 to HK$50,000. The decreases in net assets and increase in leverage were due to the loss for the year of approximately HK$54,000.

The current assets and current liabilities of Jin Shun as at 31st December, 2004 were approximately of HK$40,271,000 and HK$32,712,000 respectively. Due to the magnitude of increase in current assets was greater than that of the current liabilities, current ratio or the liquidity of Jin Shun improved to 1.23 times comparing to 1.07 times of 2003.

Inventories, trade and other receivables of Jin Shun increased as the turnover rose in 2004 but in a lesser extent. Inventory turnover for the 2004 increased slightly from 10 days to 17 days as compared to that of 2003. Debtors' turnover rose slightly from 91 days in 2003 to 94 days in 2004. Though the collection period lengthened in 2004, as the credit terms granted by Jin Shun to its customers was between 30 to 180 days, 94 days in 2004 was within the range. According to Jin Shun's accounting policy, provision is made against to the extent they are considered to be doubtful. According to the accountants' report, there was no bad debt provisions made by Jin Shun in 2004. As at 31st December, 2004, only 3.2% of the total trade receivables exceeded the credit terms of 180 days granted by Jin Shun to its customer and the ratio was regarded as not material.

In order to meet the increase in turnover, purchases of Jin Shun also increased for the year. Accordingly, trade payables also rose as well as to the turnover. Creditors' turnover for the year was 65 days and increased from 58 days from that of 2003 because longer credit terms were obtained from the suppliers.

Review for the four months ended 30th April, 2005 of Jin Shun

For the first four months of 2005, turnover recorded by Jin Shun amounted to approximately HK$47,391,000. Jin Shun generated a gross profit of approximately HK$835,000, representing a gross profit margin of 1.8% for the period. The drop in gross profit margin was due to Jin Shun's management's continue adoption of "small profit but quick returns" policy to capture market share. Jin Shun recorded a loss of approximately HK$25,000 for the period. Within the period, payments of approximately HK$108,000 as service fee and HK$224,000 as management fee were paid to Tianjin Shi Yi Yao Company. Without payment of these fees, Jin Shun would have generated a profit of approximately HK$307,000. No income tax provision was made for the period as Jin Shun is a business division. If Jin Shun had to pay enterprise income tax, the applicable tax rate would be 33%.

Distribution costs for this financial period was approximately HK$425,000 representing 0.9% to turnover. The ratio continued to drop was mainly due to the slow increases in storage costs and sales and marketing expenses relative to the turnover.

Gearing ratio remained at 99.9%, same as that of last year. The liquidity of Jin Shun for the period decreased slightly from 1.23 times for 2004 to 1.22 times.

Both inventory turnover and collection period improved in the period. Inventory turnover remained quite stable and decreased from 17 days in 2004 to 15 days in this period. Times required to collect payments from customers had been shortened within the period. Debtors' turnover improved from 94 days for 2004 to 89 days.

As at 30th April, 2005, 4.3% of the total trade receivables exceeded the credit period of 180 days granted by Jin Shun to its customers. Comparing to the year end date of 2004, the ratio only increased by 1.1%. Since the increment was not regarded as material, no bad debt provision in this respect had been made during the period.

For the first four months of 2005, creditors' turnover further increased from 65 days for 2004 to 74 days. The reason for the increase was that the suppliers were more willing to grant a longer credit terms to Jin Shun as the business relationships between them became better and more stable.

2. Business prospect of the Group

The Group is principally engaged in pharmaceutical/healthcare business and property investment. The healthcare/pharmaceutical arm of the Group engages in product developments that include clinical diagnostic kits and health supplements, as well as in the provision of clinical laboratory services. 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. The formation of the JV Company will assist the Group to tap its existing pharmaceutical/healthcare business into the fast growing PRC market and immediately provide the Group with the opportunity to market its products and services in the PRC. It is the business plan of the Group to introduce advanced products and services from abroad, and/or to market drugs abroad.

By taking full control of the JV Company, the Group believes that the JV Company will strengthen its revenue base and improve its earning capacity in the long run. The Directors believe that the JV Company will enhance the operating results and bring growth to the Group in the year ahead.

F. INDEBTEDNESS

At the close of business on 30th June, 2005, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had unaudited outstanding borrowings and provisions of approximately HK$32.5 million comprising the following:

	HK$ million
Other borrowings	
– secured	1.5
– other payables	12.2
Provisions	18.8
	32.5

The secured other borrowings were due to a securities broker. Other payables represented amounts due to Directors, staff, professionals and other creditors. Provisions were principally provisions in respect of legal claims.

As at 30th June, 2005, the Group had the following contingent liabilities:

(i) On 5th February, 1999, the Company issued a writ against Core Pacific-Yamaichi International (H.K.) Limited ("Core Pacific") for (i) damages as a result of breaching a loan facility agreement dated 7th August, 1998 of approximately HK$120,000,000 (the "Facility"); (ii) damages as a result of breaching fiduciary duties as arranger and joint financial advisor under an agreement dated 6th August, 1998; and (iii) an indemnity against all loss in relation to a purported supplemental deed dated 13th November, 1998 (the "Supplemental Deed"). On 23rd March, 1999, Core Pacific issued a writ against the Company for an alleged interest of approximately HK$4,000,000 and an alleged overdue interest together with other administrative expenses for approximately HK$1,000,000 under the Facility and the Supplemental Deed. Of the HK$5,000,000 claim, the directors consider that the HK$1,000,000 claim is without merit. The remaining HK$4,000,000 is still in dispute and has been provided for in the financial statements.

(ii) Pursuant to the settlement agreement ("SPI Settlement Agreement") made between Landune International Limited ("SPI", formerly known as Singapore Hong Kong Properties Investment Limited) and Bank of China (Hong Kong) Limited ("BOC") on 31st December, 2003, the Company is liable to a reinstatement of all liabilities and obligations under the corporate guarantees and the outstanding indebtedness owed by the Company to BOC when the settlement under the SPI Settlement Agreement is revoked, occurrence of which is not considered probable. Subsequently, the Group and BOC agreed, pursuant to two related agreements dated 30th June, 2004 and 30th September, 2004 respectively (the "BOC Agreements"), in the event of the revocation of the SPI Settlement Agreement, the Company shall pay to BOC an additional sum of approximately HK$223,000.

(iii) Pursuant to the two settlement deeds with creditor banks and SPI entered into in 2003 for the discharge and release of all the liabilities and obligations of the Company under guarantees given by the Company in respect of banking facilities extended to the subsidiaries of SPI, the releases are subject to reinstatement in the event that the settlements under these deeds are revoked, occurrence of which is not considered probable. The total amount of liabilities released by the creditor banks amounted to approximately HK$37,136,000.

(iv) Pursuant to the BOC Agreements, the Company is liable to a reinstatement of all liabilities and obligations under the guarantees and outstanding liabilities released and discharged when the BOC Agreements are revoked, occurrence of which is not considered probable. The total liabilities released under the BOC Agreements amounted to approximately HK$215,112,000 and the settlement sum already paid for the settlement was approximately HK$35,412,000.

Save as aforesaid, and apart from intra-group liabilities and normal account payables, the Group did not have mortgages, charges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding at the close of business on 30th June, 2005.

G. SUFFICIENCY OF WORKING CAPITAL

The Directors are of the opinion that after taking into account the Group's present internal resources and available credit facilities and assuming that:

1. the Group is not required to repay, in the near term, all the outstanding borrowings and provisions of approximately HK$32.5 million as at 30th June, 2005 (as disclosed in the paragraph titled "Indebtedness" above). In case these outstanding borrowings and provisions were to be repaid, Mr. Wu Kwai Yung, who is the controlling shareholder of Hong Jin, has undertaken to the Company to provide an interest bearing loan of not more than HK$32.5 million to finance the repayment;

2. the Group receives the guaranteed profits from Party C and Party D of HK$1,346,000 (on a pro rata basis of RMB4,200,000) in March 2006 and HK$4,038,000 (RMB4,200,000) in March 2007 in accordance with the terms of the JV Agreement and that such guaranteed profits can be repatriated from the PRC; and

3. contingent liabilities of approximately HK$218 million as at 30th June, 2005 (as disclosed in the paragraph titled "Indebtedness" above) will not materialise in the near term,

the Enlarged Group has sufficient working capital for its present requirements.

H. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31st December, 2004, being the date to which the latest audited financial statements of the Company were made up.

A. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

B. DISCLOSURE OF INTERESTS

(i) Interests and short positions of the Directors and chief executive in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the following Director and chief executive had or were deemed to have interests or short positions in the Shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules:

Name of Director/Chief executive (within the meaning of the SFO)	*Note*	Nature of interest	No. of Shares held	Position	Approximate percentage of existing issued share capital of the Company	Approximate percentage of the enlarged issued share capital of the Company immediately upon Conversion of the Note
Wu Kwai Yung	*(1)*	Corporate	643,835,616	Chairman	67.49%	56.96%
Wu Kwai Yung	*(2)*	Corporate	176,470,588	Chairman	18.49%	15.61%
Leung Hon Man	*(3)*	Nominee	54	Company Secretary	0.00%	0.00%

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) These Shares represent the number of Conversion Shares to be issued to Hong Jin upon full Conversion.

(3) Mr. Leung was authorised to hold the fraction of the consolidated shares arising from the share consolidation effective on 18th October, 2002.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the Shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

(ii) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial Shareholders

So far as is known to the Directors, as at the Latest Practicable Date, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the Shares or underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name of Shareholder	*Note*	No. of Shares held	Approximate percentage of issued share capital of the Company	Approximate percentage of the enlarged issued share capital of the Company immediately upon Conversion of the Note
Hong Jin	*(1)*	643,835,616	67.49%	56.96%
Hong Jin	*(2)*	176,470,588	18.49%	15.61%

Notes:

(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) These Shares represent the number of Conversion Shares to be issued to Hong Jin upon full Conversion.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying shares (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

(iii) Competing Interest

As at the Latest Practicable Date, so far as the Directors are aware of, no Directors or their respective associates had any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Enlarged Group.

(iv) Other Interest

On 15th March, 2004, a wholly-owned subsidiary of the Company as tenant entered into a tenancy agreement on normal commercial terms with Dr. Wan Kwong Kee, a director of the Company and a director of such wholly-owned subsidiary, as landlord in respect of the continued use and occupation of a property for a period of two years from 1st April, 2004 to 31st March, 2006 with monthly rental of HK$11,250. This transaction constituted exempt continuing connected transaction of the Company under Rule 14A.33(3) of the Listing Rules which was exempt from the reporting, announcement and independent shareholders' approval requirements.

Save as disclosed above,

(a) none of the Directors had any interest, direct or indirect, in any assets which has been acquired or disposed of by or leased to any member of the Group or proposed to be acquired or disposed of by or leased to, any member of the Group as at the Latest Practicable Date; and

(b) none of the Directors had any material interest in any contract or arrangement subsisting as at the Latest Practicable Date which was significant in relation to the business of the Group.

C. MATERIAL CONTRACTS

Set out below are contracts, not being contracts in the ordinary course of business of the Group, which have been entered into by members of the Group within two years immediately preceding the Latest Practicable Date and are or may be material:

(a) the Subscription Agreement and its supplemental agreement dated 30th June, 2005;

(b) the JV Agreement and its supplemental agreements dated 30th June, 2005 and 17th August, 2005;

(c) the letter of undertaking dated 31st May, 2005 and provided by Hong Jin in respect of a shareholder's loan of not less than RMB18 million to the Company;

(d) the letter of undertaking dated 13th August, 2005 and provided by Mr. Wu Kwai Yung in respect of a loan of not more than HK$32.5 million to the Company.

(e) the subscription agreement dated 2nd July, 2004 entered into between the Company, Hong Jin and Mr. Wu Kwai Yung in relation to the subscription by Hong Jin for 643,835,616 shares of the Company;

(f) the settlement deed dated 2nd July, 2004 entered into between the Company, a former subsidiary of the Company and Umbrella Finance Company Limited ("Umbrella Finance") in respect of the settlement of a loan due and payable to Umbrella Finance by such former subsidiary;

(g) the preliminary agreement dated 30th June, 2004 and the formal agreement dated 30th September, 2004 entered into between, inter alia, the Company, a subsidiary and certain former subsidiaries of the Company and Bank of China (Hong Kong) Limited ("BOC") in relation to, inter alia, the settlement of certain loans due and payable to BOC by certain members of the Group;

(h) the sale and purchase agreement dated 23rd October, 2003 entered into between the Company and an independent third party in relation to the sale of equity interest in a subsidiary of the Company and assignment of loan by the Company to the independent third party for a consideration of HK$12,000,002. Details have been set out in the Company's announcement dated 23rd October, 2003;

(i) the deed of settlement dated 19th September, 2003 entered into between the Company, Bank of Communications, Hong Kong Branch ("Bank of Communications"), SPI and certain of SPI's subsidiaries, pursuant to which (insofar as the major terms relevant to the Company): (i) subject to the Company paying to Bank of Communications HK$850,000, Bank of Communications shall discharge all the obligations and liabilities of the Company under a guarantee given by the Company in favour of Bank of Communications as well as discharge all the obligations and liabilities of the Company to pay the balance of a bank loan extended to a SPI's subsidiary; and (ii) upon Bank of Communications discharging and releasing all the obligations and liabilities of the Company under the guarantee, the Company shall discharge and release all the liabilities and obligations of SPI in respect of two indemnities given by SPI to the Company against all liabilities arising in respect of the aforementioned guarantee given by the Company in favour of Bank of Communications. Details have been set out in the Company's announcement dated 19th September, 2003; and

(j) the sale and purchase agreement dated 19th September, 2003 entered into between a 70%-owned subsidiary of the Company and an independent third party in relation to the sale of a dumb steel lighter by such 70%-owned subsidiary of the Company to the independent third party for a consideration of HK$2,000,000. Details have been set out in the Company's announcement dated 19th September, 2003.

D. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

E. LITIGATIONS AND CLAIMS

(a) On 5th February, 1999, the Company issued a writ against Core Pacific-Yamaichi International (H.K.) Limited ("Core Pacific") for (i) damages for breaches of a loan facility agreement dated 7th August, 1998 of approximately HK$120,000,000 (the "Facility"); (ii) damages for breaches of fiduciary duties as arranger and joint financial adviser under an agreement dated 6th August, 1998; and (iii) an indemnity against all loss in relation to a purported supplemental deed dated 13th November, 1998 (the "Supplemental Deed"). On 23rd March, 1999, Core Pacific issued a writ against the Company for interest of approximately HK$4,000,000 and overdue interest together with other administrative expenses of approximately HK$1,000,000 under the Facility and the Supplemental Deed. Of the HK$5,000,000 claim, the Directors consider that the HK$1,000,000 claim is without merit. The remaining HK$4,000,000 is still in dispute and has been provided for in the financial statements for the year ended 31st December, 2004. The aforesaid legal actions were ordered by the Court on 11th July, 2005 to consolidate with other two legal actions and the title of the consolidated actions will be Core Pacific as the plaintiff and the Company as the 1st defendant. The Company is now seeking legal advice and taking corresponding action in relation to its defence and counterclaim to include the breach of duty on Core Pacific's part as financial adviser and/or its negligence in discharging its duty as financial adviser.

(b) On 14th May, 2001, China Energy Promotion Limited issued a writ against the Group for breach of its obligation under a verbal agency agreement. The total claim involved is approximately HK$8,500,000. The Directors consider that the claim is without merit and the Company has instructed its legal advisers to defend the action by filing defence on 26th June, 2001 and a list of documents of the defendant on 5th September, 2001. Since then, no further action had been taken by both the plaintiff and the Company.

(c) On 22nd December, 2001, the Company through its solicitor demanded repayment of an indebtedness of HK$6,966,193 from Mr. David Wong Wai Chi ("Mr. Wong"). On 11th April, 2002, the Company successfully obtained an amended judgement against Mr. Wong for an amount of HK$6,966,193 together with interest. As Mr. Wong failed to make such payment as demanded, full provision had been made in the financial statements for the year ended 31st December, 2003. The Company had filed a Bankruptcy Petition against Mr. Wong on 15th October, 2002. As at the Latest Practicable Date, the legal action is pending to fix a date for the adjourned hearing. The Company will consult its legal advisers for the appropriate action to be taken. Mr. Wong was a former Director and a former chairman of the Company. He resigned as the chairman and Director and remained as a non-executive Director of the Company on 4th October, 2000. Mr. Wong subsequently resigned as a non-executive Director on 23rd April, 2001. The said indebtedness of HK$6,966,193 was mainly relating to a

Director's current account incurred during his directorship in the Company and was also mainly involved a rental guarantee given by him in favour of the Company. Details of such indebtedness were disclosed in the Company's annual reports of 1999 and 2000.

(d) On 24th May, 2002, the Company issued a writ against Singapore Hong Kong Properties Investment Limited ("SPI") for damages for breaches of a deed of confirmation dated 15th June, 2001 of approximately HK$152,000,000 and SPI defended the action by filing defence on 10th July, 2002. Since then, no further action had been taken by both SPI and the Company.

Save and except as disclosed above, no member of the Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group as at the Latest Practicable Date.

F. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have given opinion which are contained in this circular:

Name	**Qualification**
RSM Nelson Wheeler	Certified Public Accountants
AMS	a corporation licenced under the SFO to carry on type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities

Each of AMS and RSM Nelson Wheeler has given and has not withdrawn their respective written consents, to the issue of this circular with the inclusion therein of their respective letter and/or references to their names, in the form and context in which they appear.

As at the Latest Practicable Date, none of AMS or RSM Nelson Wheeler had any shareholding in the Company or any of its subsidiaries or the rights to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Since the date to which the latest published audited financial statements of the Company were made up and up to the Latest Practicable Date, none of AMS or RSM Nelson Wheeler had any interest in any assets which have been acquired or disposed of by or leased to, any member of the Group, or are proposed to be acquired or disposed of by or leased to, any member of the Group.

G. MISCELLANEOUS

(a) The registered office of the Company is located at Suite 1429, 14/F., Ocean Centre, 5 Canton Road, Tsimshatsui, Kowloon, Hong Kong.

(b) The company secretary and qualified accountant of the Company is Mr. Leung Hon Man, who is an associate member of the Hong Kong Institute of Certified Public Accountants and a Certified Practising Accountant of CPA Australia.

(c) The Company's share registrar and transfer office in Hong Kong is Secretaries Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.

(d) In the event of inconsistency, the English language text of this circular shall prevail over the Chinese text.

H. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of the Company Suite 1429, 14/F., Ocean Centre, 5 Canton Road, Tsimshatsui, Kowloon, Hong Kong during normal business hours on any weekday, except public holidays, from the date of this circular up to and including 5th September, 2005:

(a) the memorandum and articles of association of the Company;

(b) the annual reports of the Company for the two years ended 31st December, 2004 and 2003;

(c) the accountants' reports of Jin Shun, the text of which are set out in Appendix II to this circular;

(d) the material contracts referred to in the paragraph headed "Material contracts" in this Appendix;

(e) the written consents referred to in the paragraph headed "Experts and consents" in this Appendix;

(f) the letter from AMS as set out in pages 19 to 33 of this circular;

(g) the letter from RSM Nelson Wheeler in respect of the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular;

(h) the written statement of adjustments signed by RSM Nelson Wheeler setting out the adjustments made and the reasons for the adjustments in respect of the unaudited pro forma financial information of the Enlarged Group; and

(i) the Circular.

SANYUAN GROUP LIMITED
三元集團有限公司

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

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "EGM") of Sanyuan Group Limited (the "Company") will be held at 10:30 a.m. on Monday, 5th September, 2005 at Michelangelo, 2/F, Langham Hotel, Hong Kong, 8 Peking Road, Tsimshatsui, Kowloon, Hong Kong, for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolutions numbered 1 and 2 as ordinary resolutions:

ORDINARY RESOLUTIONS

1. **"THAT**

   (a) the Subscription Agreement (as defined in the circular (the "Circular") of the Company dated 19th August, 2005), a copy of each of the Subscription Agreement and the Circular is produced to this meeting marked "A" and "B" respectively and signed by the chairman of this meeting for the purpose of identification, and all transactions contemplated under or incidental to the Subscription Agreement be and are hereby approved and the directors of the Company be and are hereby authorised to take all steps and actions, and execute such documents and instruments necessary or expedient in their opinion to implement and/or give effect to the terms of the Subscription Agreement;

   (b) the issue of the Note (as defined in the Circular) be and is hereby approved and the directors of the Company be and are authorised to issue the Note to Hong Jin (as defined in the Circular), pursuant to the terms of the Subscription Agreement; and

   (c) the directors of the Company be and are authorised to issue the Conversion Shares (as defined in the Circular) to Hong Jin upon Conversion (as defined in the Circular), pursuant to the terms and conditions of the Note."

2. "**THAT** the JV Agreement (as defined in the Circular), a copy of the JV Agreement is produced to the Meeting marked "C" and signed by the chairman of this Meeting for the purpose of identification, and all transactions contemplated under or incidental to the JV Agreement be and are hereby approved and the directors of the Company be and are hereby authorised to take all steps necessary or expedient in their opinion to implement and/or give effect to the terms of the JV Agreement."

By order of the Board
Sanyuan Group Limited
Leung Hon Man
Company Secretary

Hong Kong, 19th August, 2005

Registered office:
Suite 1429, 14th Floor
Ocean Centre
5 Canton Road
Tsimshatsui, Kowloon
Hong Kong

Notes:

1. A form of proxy for use at the EGM is enclosed.

2. Any member entitled to attend and vote at a meeting of the Company or a meeting of the holders of any class of shares in the Company shall be entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a meeting of the Company or at a class meeting. A proxy need not be a member of the Company.

3. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised.

4. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power of authority shall be deposited at Secretaries Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time for holding the EGM or adjourned meeting or poll (as the case may be) at which the person named in the instrument proposes to vote, and in default the instrument of proxy shall not be treated as valid. Delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the meeting or the poll concerned.

5. In the case of joint holders the vote of the senior who tenders a vote, whether (being an individual) in person or by proxy or (being a corporation) by representative, shall be accepted to the exclusion of the votes of the other joint holders; and for this purpose seniority shall be determined by the order in which the names stand in the register. Several executors or administrators of a deceased member in whose name any share stands shall for such purpose be deemed joint holders thereof.

6. The voting on both resolutions numbered 1 and 2 will be conducted by way of a poll.

7. On a poll, every person who is so present shall have one vote for every fully paid up or credited as fully paid up share held by him or in respect of which he is a proxy or representative.

SANYUAN GROUP LIMITED
三元集團有限公司

(Incorporated in Hong Kong with limited liability)

PROXY FORM

Form of proxy for use at the extraordinary general meeting (the "Meeting) to be held at 10:30 a.m. on Monday, 5th September, 2005 at Michelangelo, 2/F, Langham Hotel, Hong Kong, 8 Peking Road, Tsimshatsui, Kowloon, Hong Kong and at any adjournment thereof.

I/We *(note 1)* ______________________________

of ______________________________

being the registered holder(s) of *(note 2)* ______________________________

shares of $0.02 each in the capital of Sanyuan Group Limited ("the Company"). **HEREBY APPOINT**

*(note 3)*______________________________

of ______________________________

or failing him, the chairman of the Meeting, to act for me/us as my/our proxy at the Meeting to be held at 10:30 a.m. on Monday, 5th September, 2005 at Michelangelo, 2/F, Langham Hotel, Hong Kong, 8 Peking Road, Tsimshatsui, Kowloon, Hong Kong for the purpose of considering and, if thought fit, passing the resolutions as set out in the notice convening the Meeting and at such Meeting (or at any adjournment thereof) to vote for me/us and on my/our behalf in respect of the resolutions as hereunder indicated or, if no such indication is given, as my/our proxy thinks fit *(note 4)*.

ORDINARY RESOLUTIONS	FOR	AGAINST
Resolution No. 1		
Resolution No. 2		

Dated this ____________ day of ____________ 2005   Signature *(note 5)* ______________________

Notes:

1. Full name(s) and address(es) to be inserted in **BLOCK CAPITALS**.
2. Please insert the number of shares registered in your name(s). If no number is inserted, this form of proxy will be deemed to relate to all the shares in the Company registered in your name(s).
3. Please insert the name and address of the proxy desired. **IF NO NAME IS INSERTED, THE CHAIRMAN OF THE MEETING WILL ACT AS YOUR PROXY**.
4. **IMPORTANT: IF YOU WISH TO VOTE FOR ANY RESOLUTION, PUT A TICK IN THE BOX MARKED "FOR". IF YOU WISH TO VOTE AGAINST ANY RESOLUTION, PUT A TICK IN THE BOX MARKED "AGAINST"**. Failure to do so will entitle your proxy to cast his votes at his discretion. Your proxy will also be entitled to vote at his discretion on any resolution properly put to the Meeting other than those referred to in the notice convening the Meeting.
5. This form of proxy must be signed by you or your attorney duly authorised in writing or in the case of a corporation must be either under its common seal or under the hand of an officer or attorney duly authorised in that behalf.
6. Where there are joint registered holders of any share, any one of such persons may vote at the Meeting, either personally or by proxy, in respect of such share as if he was solely entitled thereof; but if more than one of such joint holders be present at the Meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members in respect of such share shall alone be entitled to vote in respect thereof.
7. To be valid, the form of proxy, together with any power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited at the Company's share registrars and transfer office, Secretaries Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not less than 48 hours before the time appointed for the holding of the Meeting or any adjournment thereof.
8. The proxy needs not be a member of the Company but must attend the Meeting in person in order to represent you.
9. Completion and delivery of the form of proxy will not preclude you from attending and voting at the Meeting if you so wish.
10. **ANY ALTERATION MADE TO THIS FORM OF PROXY MUST BE INITIALLED BY THE PERSON WHO SIGNS IT**.