SANYUAN GROUP LIMITED
三元集團有限公司

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

2005 INTERIM RESULTS

The board of directors (the "Board") of Sanyuan Group Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2005.

CONDENSED CONSOLIDATED INCOME STATEMENT
For the six months ended 30 June 2005

	Note	**Six months ended 30 June 2005** *HK$'000* **(Unaudited)**	Six months ended 30 June 2004 *HK$'000* (Unaudited)
Turnover	*3*	**465**	560
Other income		**63**	102
Material cost for service income		**(150)**	(172)
Depreciation		**(195)**	(120)
Staff costs		**(2,031)**	(2,926)
Other operating expenses		**(2,635)**	(2,300)
Operating loss before provisions and other losses and gains		**(4,483)**	(4,856)
Holding (losses) gains on other investments		**(36)**	298
Profit on disposal of other investments		**–**	53
Reversal of losses of subsidiaries on deconsolidation		**13,021**	–
Gain on disposal of property, plant and equipment		**–**	24
Provision for doubtful trade and other receivables		**–**	(3,513)
Gain on forfeiture of deposits received		**8,700**	–
Gain on discharge of bank indebtedness		**–**	34,527
Profit from operations		**17,202**	26,533
Finance costs		**(186)**	(9,016)
Profit from ordinary activities before taxation		**17,016**	17,517
Taxation	*4*	**–**	–
Profit for the period		**17,016**	17,517
Attributable to:			
Shareholders of the Company		**17,016**	18,804
Minority interests		**–**	(1,287)
		17,016	17,517
Earnings per share	*5*	**1.8 HK cents**	6.1 HK cents

CONDENSED CONSOLIDATED BALANCE SHEET
At 30 June 2005

ASSETS AND LIABILITIES	At 30 June 2005 HK$'000 (Unaudited)	At 31 December 2004 HK$'000 (Audited)
Non-current assets		
Property, plant and equipment	**455**	643
Current assets		
Other investments	**545**	581
Trade and other receivables	**425**	785
Bank balances and cash	**740**	720
	1,710	2,086
Current liabilities		
Borrowings	**1,451**	10,925
Trade and other payables	**12,794**	20,900
Provisions	**18,850**	18,850
	33,095	50,675
Net current liabilities	**(31,385)**	(48,589)
NET LIABILITIES	**(30,930)**	(47,946)
Represented by:		
Issued capital	**19,078**	19,078
Reserves	**57,176**	57,176
Accumulated losses	**(107,184)**	(124,200)
	(30,930)	(47,946)

NOTES:

1. BASIS OF PRESENTATION

This interim financial report has been prepared in accordance with the Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and complies with the disclosure requirements of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

As at 30 June 2005, the Group had a net capital deficiency of approximately HK$30,930,000. On 5 September 2005, the issue of a HK$30,000,000 zero coupon convertible note and the formation of a Sino-foreign joint venture in Tianjin, the PRC (the "Transactions") were duly passed at the extraordinary general meeting of the Company.

In addition, pursuant to the undertaking letter dated 13 August 2005, Mr. Wu Kwai Yung, a director of the Company, has undertaken to provide an interest bearing loan of not more than HK$32,500,000 to allow the Group to satisfy its liabilities when due.

Although the Transactions have not been completed as at the date of this announcement, the directors believe that the future operations of the Group will be successful and the additional funding will be made available to the Group so as to allow it to meet its obligations when due. Accordingly, the financial statements have been prepared on the going concern basis.

2. PRINCIPAL ACCOUNTING POLICIES

In the current period, the Group has applied, for the first time, a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The adoption of the new HKFRSs did not result in substantial changes to the Group's accounting policies and has had no material effect on how the results of operations and financial position of the Group are prepared and presented for the current and prior periods. Accordingly, no prior period adjustment has been required.

The adoption of HKAS 1 "Presentation of Financial Statements" has affected the presentation of minority interest and other disclosures. The changes in presentation have been applied retrospectively.

The adoption of HKAS 24 "Related Party Disclosures" has affected the disclosures of related-party transactions in which the transaction with key management personnel are disclosed.

The Group has not early applied the new HKFRSs that have been issued by the HKICPA before 30 June 2005 but are not yet effective for the accounting periods beginning on or after 1 January 2005. The directors of the Company anticipate that the application of these new HKFRSs will have no material impact on the financial statements of the Group.

Other than the above, the interim financial report has been prepared on a basis consistent with the principal accounting policies adopted in the Company's 2004 annual report.

3. TURNOVER

Turnover and revenue recognised by category are analysed as follows:

(a) By business segments

	Property investment *HK$'000*	**Pharmaceutical and healthcare** *HK$'000*	**Consolidated** *HK$'000*
Six months ended 30 June 2004			
Sales from external customers	–	560	560
Segment result	(278)	(413)	(691)
Unallocated operating income and expenses			27,224
Profit from operations			26,533
Finance costs			(9,016)
Profit from ordinary activities before taxation			17,517
Taxation			–
Profit for the period			17,517

	Property investment *HK$'000*	Pharmaceutical and healthcare *HK$'000*	Consolidated *HK$'000*
Six months ended 30 June 2005			
Sales from external customers	–	465	465
Segment result	(8)	(278)	(286)
Unallocated operating income and expenses			17,488
Profit from operations			17,202
Finance costs			(186)
Profit from ordinary activities before taxation			17,016
Taxation			–
Profit for the period			17,016

(b) By geographic segments

For the six months ended 30 June 2004 and 30 June 2005, all sales revenue and result generated from the business activities were derived from Hong Kong.

4. TAXATION

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

5. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2005 was based on the consolidated profit of approximately HK$17,016,000 *(Six months ended 30 June 2004: approximately HK$18,804,000)* and the approximately 953,907,000 shares *(Six months ended 30 June 2004: approximately 310,071,000 shares)* in issue during the six months ended 30 June 2005.

No diluted earnings per share is presented as there were no dilutive potential ordinary shares in issue for the six months ended 30 June 2004 and 30 June 2005.

BUSINESS REVIEW

Overview

The financial position of the Group further improved during the period under review as the Group recorded a consolidated net profit and a reduction of total liabilities. However, the turnover generated by the Group showed a decline relative to the same period of the last year.

Financial results

During the first six months of 2005, the Group recorded a total turnover of approximately HK$465,000 representing a decrease of 17.0% from that of previous corresponding period. However, the operating loss before provisions and other losses and gains dropped by 7.7% to approximately HK$4,483,000 for the period under review as the total operating expenses of the Group including staff cost kept on dropping.

As three subsidiaries of the Company were wound up by the Group in February 2005 pursuant to the settlement agreements entered into between the Group and Bank of China (Hong Kong) Limited in 2004, the Group recorded a reversal of losses of subsidiaries on deconsolidation of approximately HK$13,021,000 during the period. Besides, after continuous discussions with a purchaser of convertible note to be issued by the Company in 2001 and a purchaser of equity and loan in a former subsidiary of the Company in 2003, the Company and the purchasers agreed mutually to release the liabilities and obligations of each other under the respective agreements and agreed the Company to forfeit the deposits received. Accordingly, the Group recorded a total gain on such forfeitures of HK$8,700,000.

The Group did not have any bank borrowings during the period. As such, the Group's finance costs reduced to approximately HK$186,000 representing a substantial decrease of 97.9% as compared to the six months ended 30 June 2004.

As a result of the above, the winding up of the three former subsidiaries of the Company and forfeiture of the deposits received in particular, the Group recorded a net profit for the period of approximately HK$17,016,000.

Earnings per share for the period was HK1.8 cents while it was HK6.1 cents for the previous corresponding period. The drop was caused by the substantial increase in number of shares issued to approximately 954 million shares resulting from the allotment of shares to the controlling shareholder in the latter half of 2004.

Review of operations

In the period under review, the Group's operation result was solely contributed by the pharmaceutical and healthcare unit of the Group - GenePro. The turnover of GenePro decreased by 17.0% to approximately HK$465,000 as a result of keen competition within the industry and management's concentration more on the formation of a new pharmaceutical business in the PRC during the first half of 2005. On the other hand, the segment result of this pharmaceutical and healthcare unit improved further as its loss decreased by 32.7% to approximately HK$278,000 relative to that of 2004.

There were no significant changes in respect of other activities of the Group as compared to the period ended 30 June 2004 and no material acquisitions and disposals of subsidiaries and associates during the first half of 2005.

Liquidity and financial resources

The Group did not have bank indebtedness within and at the end of the review period. All the liabilities of the Group were of current nature and reduced by approximately HK$17,580,000 or 34.7% to HK$33,095,000 from that of the end of 2004. The main reasons for the net decrease in total liabilities were the results of deconsolidation of the assets and liabilities of the former subsidiaries from the Group, the forfeiture of deposits received and the increase in the amount due to directors for working capital purposes. The gearing ratio (total liabilities as a percentage of total assets) decreased from approximately 1,856.9% to 1,528.6% at the end of the period under review because of the lesser magnitude of decrease in the total assets than in the total liabilities. Moreover, the current ratio of the Group also improved from 4.1% as at the end of 2004 to 5.2% of the current period.

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

Charges on assets

As at 30 June 2005, certain assets of the Group with an aggregated carrying value of approximately HK$490,000 were pledged to secure the Group's borrowings as compared to HK$525,000 as at 31 December 2004.

Employee remuneration policy and number of employees

As at 30 June 2005, the Group engaged 15 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

There has been no material change in contingent liabilities since the publication of the Company's 2004 Annual Report.

Prospects

The Group had entered into a subscription agreement with the controlling shareholder of the Company in respect of the issue of a convertible note of HK$30,000,000 and a JV agreement with three independent third parties to form a joint venture pharmaceutical business in the PRC (the "JV Company") in the first half of 2005. As at the date hereof, the Company has already obtained approvals from its shareholders to proceed with the transactions. The JV Company will principally engaged in the wholesale and retail of pharmaceutical products in the PRC, development of pharmaceutical products/medical equipment, health services, and investment and management pharmaceutical businesses. The JV Company will assist the Group in tapping its existing pharmaceutical/healthcare business into the fast growing PRC market. In such way, the revenue base and earning capacity of the Group would be strengthen and improved in the coming years. As the Group had reduced its indebtedness substantially, the management expects that the Group is not required to repay all the outstanding borrowings and provisions in the near future. Moreover, the Group has also obtained an undertaking from its Chairman that a loan would be provided to the Group to finance the repayment. The directors are optimistic that the future operations of the Group will be successful and the Group would have sufficient funding to meet its obligations when due.

AUDIT COMMITTEE

The Audit Committee has three members including Mr. Zhou Haijun, Mr. Ng Wai Hung and Mr. Xu Zhi, all of them are independent non-executive directors. A set of new written terms of reference, which set out the authority and duties of the Audit Committee, was adopted by the Board on 19 April 2005.

The Audit Committee of the Company has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited interim financial statements. The interim financial statements have not been audited. At the request of the directors, the Group's external auditors have carried out a review of the unaudited interim financial statements.

REMUNERATION COMMITTEE

The Company has established a Remuneration Committee comprising three independent non-executive directors and two executive directors. A set of new written terms of reference, which set out the authority and duties of the Remuneration Committee, was adopted by the Board on 19 April 2005.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2005 *(For the six months ended 30 June 2004: Nil).*

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the period ended 30 June 2005.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by the interim report, with deviations from code provision A.4.1 of the CG Code that the independent non-executive directors of the Company are not appointed for specific terms. However, all directors (executive and independent non-executive) are subject to retirement by rotation in accordance with the Company's Articles of Association. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors by Listed Issuers (the “Model Code”) as set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all directors, the Company confirms that all directors have complied with the required standard set out in the Model Code throughout the accounting period covered by the interim report.

PUBLICATION OF FINANCIAL INFORMATION

The interim report of the Group for the period ended 30 June 2005 containing all the information required by the Listing Rules will be published on the website of the Stock Exchange in due course.

By Order of the Board
Wu Kwai Yung
Chairman

Hong Kong SAR, 26 September 2005

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

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