SANYUAN GROUP LIMITED
三元集團有限公司

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

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2005

RESULTS

The Board of Directors (the "Board") of Sanyuan Group Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2005 together with the comparative figures for the year ended 31 December 2004 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2005

	Note	2005 HK$'000	2004 HK$'000
Turnover	4(a)	**11,207**	1,169
Other income	4(b)	**559**	660
Changes in inventories		**(9,932)**	(418)
Depreciation		**(384)**	(321)
Staff costs		**(4,057)**	(5,424)
Other operating expenses		**(6,570)**	(5,103)
Reversal of losses of subsidiaries on deconsolidation		**13,021**	–
Gain on disposal of subsidiaries		**–**	21,492
Loss on disposal of an associate		**–**	(1)
Gain on forfeiture of deposits received		**8,700**	–
Allowance for doubtful trade and other receivables		**–**	(3,571)
Gain on discharge of bank and other indebtedness		**–**	217,415
Finance costs		**(266)**	(9,641)
Profit before taxation	5	**12,278**	216,257
Taxation	6	**–**	–
Profit for the year		**12,278**	216,257
Attributable to:			
Equity holders of the Company		**12,278**	217,547
Minority interests		**–**	(1,290)
		12,278	216,257
Earnings per share			
– Basic	7	**1.3 HK cents**	45.9 HK cents
– Diluted	7	**1.2 HK cents**	45.9 HK cents

CONSOLIDATED BALANCE SHEET
At 31 December 2005

	2005	2004
	HK$'000	HK$'000
ASSETS AND LIABILITIES		
Non-current assets		
Property, plant and equipment	**600**	643
Interests in deconsolidated subsidiaries	**–**	–
	600	643
Current assets		
Inventories	**4,775**	–
Other investments	**–**	581
Financial assets at fair value through profit or loss	**204**	–
Trade and other receivables	**15,513**	785
Bank balances and cash	**17,369**	720
	37,861	2,086
Current liabilities		
Borrowings	**1,244**	10,925
Trade and other payables	**18,266**	20,900
Provisions	**18,850**	18,850
Convertible note	**25,663**	–
	64,023	50,675
Net current liabilities	**(26,162)**	(48,589)
TOTAL ASSETS LESS CURRENT LIABILITIES	**(25,562)**	(47,946)
CAPITAL AND RESERVES		
Share capital	**19,078**	19,078
Reserves	**61,513**	57,176
Accumulated losses	**(111,922)**	(124,200)
Total equity attributable to equity holders of the Company	**(31,331)**	(47,946)
Minority interests	**5,769**	–
	(25,562)	(47,946)

NOTES:

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Group had net current liabilities and capital deficiency of HK$26,162,000 and HK$25,562,000 respectively at 31 December 2005. The financial statements have been prepared on a going concern basis, the validity of which depends upon the continuous financial support by the Group's ultimate holding company at a level sufficient to finance the Group's current activities. The Group's ultimate holding company has confirmed its willingness to finance the Group's current activities. Moreover, the Group's ultimate holding company has extended the maturity date of the HK$30,000,000 convertible note from 7 December 2006 to 7 December 2007.

Should the Group fail to prepare the financial statements on a going concern basis, adjustments would have to be made to the financial statements to adjust the value of the Group's assets to their recoverable amounts, to provide for any liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities respectively.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all of the new and revised Standards and Interpretations (hereinafter collectively referred to as new HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2005. The adoption of these new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have affected the amounts reported for the current or prior year:

– presentation of financial statements (HKAS 1); and

– financial instruments (HKAS 32 and HKAS 39);

The impact of these changes in accounting policies is discussed below. The adoption of the new HKFRSs has no impact on basic and diluted earnings per share.

HKAS 1 Presentation of Financial Statements

HKAS 1 affects the presentation of minority interests and other disclosures in the financial statements.

HKAS 32 Financial Instruments: Disclosure and Presentation & HKAS 39 Financial Instruments: Recognition and Measurement

HKAS 32 Financial Instruments: Disclosure and Presentation requires retrospective application and primarily addresses the classification of a financial instrument issued by an entity and prescribes disclosure requirements of financial instruments. HKAS 39 Financial Instruments: Recognition and Measurement deals with recognition, measurement, derecognition of financial instruments and also prescribes requirements for hedge accounting. HKAS 39 generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects of the adoption of the requirements of HKAS 32 and HKAS 39 are summarised below:

Investment securities

In 2004, the Group classified its equity securities in accordance with the alternative treatment of Statement of Standard Accounting Practice 24 Accounting for Investments in Securities (SSAP 24). Under the alternative treatment, investments in equity securities are classified as "trading securities" or as "non-trading securities". Both "trading securities" and "non-trading securities" are measured at fair value. Unrealised gains or losses of "trading securities" are reported in profit or loss for the period in which gains or losses arise while unrealised gains or losses of "non-trading securities" are reported in equity until the securities are sold or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in profit or loss for that period. In accordance with HKAS 39, investments in equity securities are classified as either financial assets at fair value through profit or loss or as available-for-sale, and are measured at subsequent reporting dates at fair value. Changes in fair values of financial assets at fair value through profit or loss are recognised in profit or loss as they arise while changes in fair values of available-for-sale investments are generally recognised in equity. The Group has applied the transitional rules in HKAS 39. At 1 January 2005, the Group reclassified its trading securities (other investments) with a carrying amount of HK$581,000 to financial assets at fair value through profit or loss. Apart from this, the adoption of the requirements of HKAS 39 in respect of equity investments has had no other impact on the amounts reported for the current or prior year.

At the date of authorisation of the financial statements, the following Standards and Interpretations were in issue but not yet effective:

HKAS 1 (Amendment)	Capital Disclosures
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendments)	Financial Guarantee Contracts
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HKFRS – Int 4	Determining whether an Arrangement contains a Lease
HKFRS – Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC) – Int 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

3. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. In addition, the financial statements are prepared in accordance with the Companies Ordinance and include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

4. TURNOVER AND REVENUE

	2005	2004
	HK$'000	*HK$'000*
(a) Turnover and revenue		
Turnover		
Sale and distribution of pharmaceutical products	**10,232**	–
Laboratory testing service income	**975**	1,169
	11,207	1,169
Other revenue *(note 4(b))*	**442**	–
Total revenue	**11,649**	1,169
(b) Other income		
Interest income	**99**	–
Guarantee income earned	**343**	–
Total other revenue	**442**	–
Holding gain on other investments	**–**	217
Profit on disposal of other investments	**–**	53
Gain on disposal of property, plant and equipment	**–**	7
Others	**117**	383
	559	660

5. PROFIT BEFORE TAXATION

This is stated after charging (crediting):

	2005	2004
	HK$'000	*HK$'000*
(a) Finance costs		
Interest on bank overdrafts and borrowings	**–**	9,332
Interest on other borrowings wholly repayable within five years	**266**	309
	266	9,641
(b) Other items		
Guarantee income paid	**36**	–
Changes in fair value of financial assets at fair value through profit or loss	**65**	–
Realised loss on disposal of financial assets at fair value through profit or loss	**26**	–
Bad debt recovery	**(16)**	–
Contributions to defined contribution plans	**119**	108
Exchange gain	**(19)**	–
Auditors' remuneration	**550**	390
Operating lease charges on premises	**797**	581

6. TAXATION

No provision for Hong Kong Profits Tax is required since the Group has no assessable profit for the year (2004: HK$Nil). Taxation for other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

7. EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2005 was based on the consolidated profit for the year attributable to equity holders of the Company of HK$12,278,000 (2004: HK$217,547,000) and the weighted average of 953,906,963 shares (2004: 473,668,922 shares) in issue during the year.

The calculation of diluted earnings per share for the year ended 31 December 2005 was based on the consolidated profit for the year attributable to equity holders of the Company of HK$12,278,000 (2004: HK$217,547,000). The weighted average number of shares used in the calculation was 953,906,963 shares (2004: 473,668,922 shares) in issue during the year and the weighted average number of 45,930,701 shares (2004: Nil) assumed to have been issued at no consideration on the deem exercise or conversion of all the dilutive potential ordinary shares into ordinary shares.

	2005	2004
Shares		
Weighted average number of ordinary share in issue	**953,906,963**	473,668,922
Effect of dilution – weighted average number of ordinary shares to be issued upon full conversion of convertible note	**45,930,701**	–
	999,837,664	473,668,922

AUDITORS' OPINION EXTRACTED FROM AUDITORS' REPORT

"Fundamental uncertainty

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the basis of preparation of financial statements adopted by the directors. As explained in note 2 to the financial statements, the Group had net current liabilities and capital deficiency of HK$26,162,000 and HK$25,562,000 respectively at 31 December 2005.

The financial statements have been prepared on a going concern basis, the validity of which depends upon the continuous financial support by the Group's ultimate holding company at a level sufficient to finance the Group's current activities. The Group's ultimate holding company has confirmed its willingness to finance the Group's current activities. Moreover, as stated in note 20 to the financial statements, the Group's ultimate holding company has extended the maturity date of the HK$30,000,000 convertible note from 7 December 2006 to 7 December 2007. The circumstances relating to this fundamental uncertainty are described in note 2 to the financial statements. We consider that the fundamental uncertainty has been adequately disclosed in the financial statements and our opinion is not qualified in this respect.

Opinion

In our opinion, 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 2005 and of the Group's results and cash flows for the year then ended and have been properly prepared in accordance with the Companies Ordinance."

MANAGEMENT DISCUSSION & ANALYSIS

OVERVIEW

The financial position, performance and level of operations of the Group improved considerably in 2005 as the Group recorded a significant increase in turnover and a consolidated net profit. The balance of total assets also increased substantially during the year under review.

FINANCIAL RESULTS

The Group recorded a turnover of approximately HK$11,207,000 and a profit for the year attributable to equity holders of the Company of approximately HK$12,278,000 for the year ended 31 December 2005. An increase of 858.7% in turnover as compared to 2004 was due to the operation of the pharmaceutical business of the 60% owned subsidiary in Tianjin, the PRC, Tianjin Jinshun Pharmaceutical Co., Ltd. ("Tianjin Jinshun") commenced at the end of November 2005.

The net profit of the Group dropped in 2005 by 94.3% to approximately HK$12,278,000 as there was a gain on discharge of bank and other indebtedness of HK$217,415,000 recorded in 2004 but not in 2005.

There were three subsidiaries of the Company being 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 ("BOC") in 2004. As such, the Group recorded a reversal of losses of subsidiaries on deconsolidation of approximately HK$13,021,000. Besides, the Group also recorded a gain on forfeitures of two deposits received in previous years in a total sum of HK$8,700,000 as the Group reached settlements with the respective creditors in March 2005.

Staff costs of the Group kept on dropping and decreased by 25.2% to approximately HK$4,057,000. However, other operating expenses increased by approximately 28.7% or HK$1,467,000 mainly due to non-recurrent expenses including professional fees incurred by the Group and setting-up expenses of Tianjin Jinshun during the year.

REVIEW OF OPERATIONS

Hong Kong

In 2005, the operation in Hong Kong accounted for approximately 8.7% (2004: 100.0%) of the total turnover of the Group. It was the turnover contributed by the pharmaceutical and healthcare unit of the Group – GenePro Medical Biotechnology Limited ("GenePro"). The absolute turnover of GenePro decreased by 16.6% to approximately HK$975,000 when GenePro started to market lower-price, but less costly in-house-developed versions of its test, instead of the higher-priced import versions. Nonetheless, the segment results of the Hong Kong segment has actually improved, at the same level of operation, as the cost control of GenePro in 2005 was more effective than in 2004. The Group expects GenePro's revenue and profit will greatly increase when its products are launched.

The PRC

Approximately 91.3% (2004: nil) of the turnover of the Group was generated by the Group's pharmaceutical distribution business in the PRC. In September 2005, the Group established Tianjin Jinshun with three independent third parties and owned as to 60% and 40% in the interests of Tianjin Jinshun respectively. This 60% owned PRC subsidiary commenced operation at the end of November 2005 and engaged principally in distribution of pharmaceutical products. Within the month of December in 2005, this subsidiary generated a turnover of approximately HK$10,232,000.

Although Tianjin Jinshun recorded a minimal profit in the year 2005 as a whole, based on only one month's revenue and as a result of setting up expenses, the Group's share of profit from this subsidiary was compensated by the profit guaranteed by the other two equity partners. In the long term, however, the Group expects that Tianjin Jinshun will provide the Group with steady income.

Save for the formation of Tianjin Jinshun and the winding up of three former subsidiaries, there were no significant changes in respect of other activities of the Group as compared to 2004 and no material acquisitions and disposals of subsidiaries and associates during 2005.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2005, the Group had total assets of approximately HK$38,461,000 (2004: HK$2,729,000), among which, HK$37,861,000 (2004: HK$2,086,000) were current assets comprised mainly of trade and other receivables of HK$15,513,000, bank balance and cash of HK$17,369,000.

After the deconsolidation of the three former subsidiaries, the Group had borrowings of HK$1,244,000 as at the end of 2005. Total liabilities of the Group amounted to approximately HK$64,023,000 were all classified as current liabilities. Among the total liabilities, approximately HK$25,663,000 was the fair value of the liability component of a zero-coupon convertible note in the principal amount of HK$30 million (the "Note"). The Note was issued to the controlling shareholder of the Company which will be mandatorily and automatically converted into ordinary shares of the Company upon, *inter alia*, the trading of the shares of the Company resumes. Although the Note was regarded as current liabilities as at 31 December 2005, the maturity date of the Note has been extended by the Note holder further to 7 December 2007 after the year end date. The other current liabilities included other borrowings of HK$1,244,000, trade and other payables of HK$18,266,000 and provisions of HK$18,850,000.

The financial position of the Group as at 31 December 2005 significantly improved as compared to that of 31 December 2004. It is evidenced by: (i) the decrease in gearing ratio (total liabilities as a percentage of total assets) from 1,856.9% of the corresponding period to 166.5% at the end of 2005; and (ii) the improvement in current ratio from 4.1% as at 31 December 2004 to 59.1% as at 31 December 2005. Should the Note of HK$30,000,000 mentioned above be converted, the Group would probably improve from net liabilities position to net assets position.

Most of the sales, sales-related costs and expense, and a portion of the assets and liabilities of the Group are denominated in Renminbi. Renminbi revenue and profit generated are applied to meet the Renminbi obligations of the Group. Other cash and cash equivalents, investments and borrowings of the Group were made in Hong Kong dollars. As such, no financial instruments had been used for hedging purpose. During the year, the Group had not been exposed to any material exchange rate fluctuation.

CHARGES ON ASSETS

As at 31 December 2005, certain assets of the Group with aggregate carrying value of approximately HK$266,000 were pledged to secure the Group's borrowing as compared to HK$525,000 as at 31 December 2004.

EMPLOYEE REMUNERATION POLICY AND NUMBER OF EMPLOYEES

As at 31 December 2005, the Group employed 70 employees in Hong Kong and the PRC. The remuneration policy and package, including the share options, of the Group's employees are maintained at competitive level and will be reviewed annually by the Remuneration Committee.

CONTINGENT LIABILITIES

At 31 December 2005, 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 provide for in the financial statements.

(b) In relation to a settlement agreement entered into between Singapore Hong Kong Properties Investment Limited ("SPI"), now renamed Landune International Limited and BOC in December 2003 ("the SPI Settlement Agreement"), 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 settlement agreements between the Group and BOC dated 30 June 2004 and 30 September 2004 (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. During the year, the guarantee given to a creditor bank was released. Subsequent to the balance sheet date, the Group issued a letter to request another creditor bank to release the guarantee according to the terms of the settlement deed.

(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.

The Group noted Landune International Limited had disclosed in note 23 to the financial statements contained in its annual report for the year ended 31 December 2004 that the principal terms of settlement set out in the SPI Settlement Agreement were substantially satisfied. Moreover, the Group has satisfied the conditions for the discharge and release of the bank borrowings as set out in the BOC Agreements. In view of this, the Directors consider that the revocations of SPI Settlement Agreement and BOC Agreements are remote and no provision was provided for the amounts (b) and (d) stated above.

PROSPECTS

In 2006, the Group will operate in full gear to elevate its operation level and increase its assets. The business development of Tianjin Jinshun, as planned, would be benefited from the continuing growth of the pharmaceutical industry and products in the PRC and the government policies on improving healthcare. To capitalise these factors and opportunities in the market, the management will focus on:–

(i) expanding the sales network in the Tianjin area and its geographical coverage;

(ii) adjusting product mix to increase profitability;

(iii) launching new products/services from GenePro;

(iv) establishing a marketing/sales network based on GenePro and Tianjin Jinshun; and

(v) seeking opportunities to collaborate with drug manufacturers/suppliers to achieve vertical integration.

With the expertise and personnel the Group possessed, the management is optimistic that the business plans will be materialised and the current operation of the Group will provide it with steady income and achieve a sustainable growth in the coming year.

DIVIDENDS

No interim dividend was paid to the shareholders of the Company during the year.

The Board of the Company does not recommend the payment of any final dividend for the year ended 31 December 2005 (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 year ended 31 December 2005.

CORPORATE GOVERNANCE

The Company and its Directors are committed to maintaining high standards of corporate governance practices. To comply with the code provisions of the Code on Corporate Governance Practices (the "CG Code") set out in Appendix 14 of the Listing Rules and to enhance the corporate governance practices of the Group, two committees, namely Remuneration Committee and Audit Committee were established under the Board within the structure of corporate governance.

During the year, the Company has complied with most of the provisions of the CG Code with deviations from code provision A4.1 of the CG Code that two of 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 than exactly those in the CG Code.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the audited financial statements for the year ended 31 December 2005.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of 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 year ended 31 December 2005.

DIRECTORS

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.

PUBLICATION OF FINANCIAL INFORMATION

The annual report of the Company for the year ended 31 December 2005 containing all the information required by paragraphs 45(1) to 45(8) inclusive of Appendix 16 of the Listing Rules, will be published on the website of the Stock Exchange in due course.

By order of the Board
Sanyuan Group Limited
Wu Kwai Yung
Chairman

Hong Kong, 21 April 2006

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