

The Directors have pleasure in presenting their annual report together with the audited financial statements of Sanyuan Group Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in property investment and pharmaceutical/healthcare business.

The principal activities and other particulars of the subsidiaries are set out on page 65.

CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2006, the five largest suppliers of the Group accounted for approximately 59.2% of the Group's total purchases while the five largest customers of the Group accounted for approximately 53.0% of the Group's total turnover. In addition, the largest supplier of the Group accounted for approximately 25.7% of the Group's total purchases whilst the largest customer of the Group accounted for approximately 19.3% of the Group's total turnover. None of the Directors, their associates, or any shareholders (which to the knowledge of the Directors owned more than 5% of the Company's share capital) had a beneficial interest in the Group's five largest customers or the five largest suppliers.

RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31 December 2006 are set out in the consolidated income statement on page 27 of this annual report.

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

The Board of Directors of the Company does not recommend the payment of any final dividend for the year ended 31 December 2006 (2005: Nil).

REPORT OF THE DIRECTORS

SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements, is set out below:

	As at/For the year ended 31 December				
	2006 HK\$'000	2005 HK\$'000 (Restated)	2004 HK\$'000 (Restated)	2003 HK\$'000 (Restated)	2002 HK\$'000 (Restated)
Results					
Turnover	144,383	11,207	1,169	1,355	6,785
Profit/(Loss) from operations	3,979	12,544	225,898	125,949	(115,781)
Finance costs	(4,494)	(266)	(9,641)	(29,450)	(24,875)
Share of results of associates	–	–	–	31	16
(Loss)/Profit before taxation	(515)	12,278	216,257	96,530	(140,640)
Income tax expenses	(969)	–	–	6	806
(Loss)/Profit for the year	(1,484)	12,278	216,257	96,536	(139,834)
(Loss)/Profit attributable to equity holders of the Company	(2,421)	12,278	217,547	96,232	(139,393)
Assets and liabilities					
Property, plant and equipment	549	600	643	424	29,560
Goodwill	–	–	–	–	1,548
Interest in associates	–	–	–	45	12,010
Investment securities	–	–	–	–	1
Net current liabilities	(22,492)	(26,162)	(48,589)	(308,101)	(447,287)
Net liabilities	(21,943)	(25,562)	(47,946)	(307,632)	(404,168)
Capital and reserves					
Share capital	19,078	19,078	19,078	6,201	6,201
Reserves	(52,409)	(50,409)	(67,024)	(315,123)	(411,355)
Total equity attributable to equity holders of the Company	(33,331)	(31,331)	(47,946)	(308,922)	(405,154)
Minority interests	11,388	5,769	–	1,290	986
	(21,943)	(25,562)	(47,946)	(307,632)	(404,168)

SHARE CAPITAL

Details of share capital of the Company are set out in note 26 to the accompanying financial statements.

CONVERTIBLE NOTE

Details of the convertible note issued by the Company are set out in note 24 to the accompanying financial statements.

SHARE OPTION SCHEME

Details of the Company's share option scheme are set out in note 26(b) to the accompanying financial statements.

RESERVES

Movements in reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity to the accompanying financial statements.

In the opinion of the Directors, the Company had no reserves available for distribution to equity holders at 31 December 2006 (2005: 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 2006.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 17 to the accompanying financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment during the year are set out in note 15 to the accompanying financial statements.

BORROWINGS

Particulars of borrowings as at 31 December 2006 are set out in note 23 to the accompanying financial statements.

BORROWING COST CAPITALISATION

No borrowing cost was capitalised by the Group during the year (2005: Nil).

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors who held office during the year and up to the date of this report were:

Executive:

Mr. Wu Kwai Yung (*Chairman*)
Mr. Zhao Tie Liu (*Managing Director*)
Mr. Leung Hon Man
Dr. Wan Kwong Kee (*resigned on 3 April 2007*)

Independent Non-executive:

Mr. Zhou Haijun
Mr. Ng Wai Hung
Mr. Xu Zhi

In accordance with article 103 of the Company's Articles of Association, Messrs. Wu Kwai Yung and Zhao Tie Liu retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

According to article 94 of the Company's Articles of Association, any Director appointed by the Board to fill a casual vacancy or as an addition to the Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at such meeting. Mr. Leung Hon Man was appointed as Executive Director of the Company with effect from 21 November 2006. Accordingly, Mr. Leung Hon Man shall retire from his office at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

The appointments of two of the Independent Non-executive Directors are not for specific terms. They are subject to retirement by rotation in accordance with the Company's Articles of Association.

None of the Directors has an unexpired contract with the Company which is not terminable by the Company within one year without payment of compensation (other than statutory compensation).

INTERESTS IN EQUITY SECURITIES OF THE DIRECTORS AND CHIEF EXECUTIVE

As at 31 December 2006, the interests of the Directors and the Company's chief executive in the equity or debt securities of the Company or any associated corporation (within the meaning of the Securities and Future Ordinance ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to section 347 of the SFO (including interests which they were deemed or taken to have under sections 344 and 345 of the SFO) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"), or which were recorded in the register required to be kept under section 352 of the SFO, were as follows:

Name of Director/ Chief Executive	Number of ordinary shares held	Nature of interest	Percentage of issued share capital
Wu Kwai Yung	643,835,616	Corporate (Note 1)	67.5%
Wu Kwai Yung	176,470,588	Corporate (Notes 1,2)	18.5%
Leung Hon Man	54	Nominee (Note 3)	0.0%

Note:

- (1) The corporate interest is held by Hong Jin Holdings Limited ("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 new shares to be issued to Hong Jin upon full conversion of a zero coupon mandatory convertible note issued by the Company in the principal amount of HK\$30,000,000 which is convertible into new shares at an initial conversion price of HK\$0.17 per share.
- (3) Mr. Leung was authorised to hold the fractions of the consolidated Shares arising from the share consolidation effective on 18 October 2002.

REPORT OF THE DIRECTORS

Save as disclosed above, as at 31 December 2006, none of the Directors or their associates had any personal, family, corporate or other interest in the equity securities or debentures of, or has a short position in shares in the relevant share capital of the Company or any of its associated corporations (as defined in the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to section 347 of the SFO (including the interests which they were deemed or taken to have under sections 344 and 345 of the SFO) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to herein.

INTEREST OF SHAREHOLDERS HOLDING 5% OR MORE OF THE SHARE CAPITAL OF THE COMPANY

As at 31 December 2006, the following interests (whether direct or indirect) of 5% or more of the Shares comprised in the share capital of the Company were recorded in the register of interests in shares and short positions required to be kept by the Company pursuant to section 336 of the SFO:

Name of Shareholders	Number of shares held	Approximate percentage of existing issued share capital of the Company
Hong Jin Holdings Limited	643,835,616 (Note 1)	67.5%
Hong Jin Holdings Limited	176,470,588 (Note 2)	18.5%

Notes:

- (1) Hong Jin Holdings Limited, 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 new shares to be issued to Hong Jin upon full conversion of a zero coupon mandatory convertible note issued by the Company in the principal amount of HK\$30,000,000 which is convertible into new shares at an initial conversion price of HK\$0.17 per share.

According to the register of interests in shares and short positions kept by the Company under section 336 of the SFO and so far as was known to the Directors, other than the interests disclosed above, there was no other person (other than a director or chief executive of the Company) who, as at 31 December 2006, was directly or indirectly, beneficially interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of the Company or in any options in respect of such capital.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

DIRECTORS' INTERESTS IN CONTRACTS

- (a) During 2005, the Group had the following transactions with ReliaLab Medical Laboratory & X-Ray Centre Limited ("ReliaLab"). Dr. Wan Kwong Kee, the then Director of the Company, and Mr. Chow Wing Cho, the then director of a wholly-owned subsidiary of the Company, are also directors and indirect minority shareholders of ReliaLab.

	2006 HK\$'000	2005 HK\$'000
Rental expenses recharged (<i>note i</i>)	–	(19)
Salaries received for shared staff (<i>note i</i>)	–	(14)
Salaries paid for shared staff (<i>note i</i>)	–	2
Management fee recharged (<i>note i</i>)	–	(6)
Electricity fee recharged (<i>note i</i>)	–	(1)
Laboratory testing service income (<i>note ii</i>)	–	(4)

Notes:

- (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.

REPORT OF THE DIRECTORS

- (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, the then Director of the Company and the then 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. On 31 March 2006, the tenancy agreement was further extended to 30 September 2006 with monthly rental remain unchanged. No more tenancy agreement was renewed after 30 September 2006 even the property was still used and occupied by the wholly-owned subsidiary. This transaction constituted exempt continuing connected transaction of the Company under Rule 14A.33(3) of the Listing Rules which was exempted from the reporting, announcement and independent shareholders' approval requirements.

Apart from the foregoing, no contract of significance to which the Company or any of its subsidiaries was a party, in which a Director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the Company has maintained a sufficient public float as required by the Listing Rules.

AUDITORS

Moores Rowland were appointed as auditors of the Company on 22 February 2002. Messrs. Moores Rowland merged with Messrs. Mazars on 1 October 2003 and are now practicing under the name of Moores Rowland Mazars. Moores Rowland Mazars acted as auditors of the Company for the financial years ended 31 December 2003 and 31 December 2004 respectively and resigned on 9 February 2006.

RSM Nelson Wheeler were appointed as auditors of the Company on 10 February 2006 and acted as auditors of the Company for the financial year ended 31 December 2005.

RSM Nelson Wheeler resigned and CCIF CPA Limited were appointed as auditors of the Company on 24 November 2006.

The accompanying financial statements were audited by CCIF CPA Limited. A resolution for the appointment of CCIF CPA Limited as the Company's auditors for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board,

Wu Kwai Yung
Chairman

Hong Kong, 25 April 2007