SANYUAN GROUP LIMITED
三元集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 140)

2009 INTERIM RESULTS

The board of directors (the "Board") of Sanyuan Group Limited (the "Company") announces that the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2009 together with the comparative figures for the corresponding period in 2008 are as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

For the six months ended 30 June 2009

		Six months ended 30 June	
		2009	2008
	Note	***HK$'000***	*HK$'000*
Turnover	*3*	**124,029**	93,028
Cost of sales		**(117,737)**	(88,830)
Gross profit		**6,292**	4,198
Other revenue		**431**	573
Other income		**5,373**	–
Selling and distribution costs		**(664)**	(444)
General and administrative expenses		**(12,296)**	(5,408)
Loss from operations		**(864)**	(1,810)
Finance costs	*4(a)*	**(3,395)**	(2,483)
Loss before taxation	*4*	**(4,259)**	(3,564)
Income tax	*5*	**(391)**	(459)
Loss for the period		**(4,650)**	(4,023)

		Six months ended 30 June	
		2009	2008
	Note	***HK$'000***	*HK$'000*
Other comprehensive income			
Exchange difference arising on translation of foreign operations		**100**	1,542
Other comprehensive income for the period		**100**	1,542
Total comprehensive income for the period		**(4,550)**	(2,481)
Loss for the period attributable to:			
Owners of the Company		**(4,982)**	(4,503)
Minority interests		**332**	480
		(4,650)	(4,023)
Total comprehensive income attributable to:			
Owners of the Company		**(4,882)**	(2,961)
Minority interests		**332**	480
		(4,550)	(2,481)
Dividends	*6*	**–**	–
Loss per share	*7*		
– Basic		**(HK0.52 cents)**	(HK0.47 cents)
– Diluted		**N/A**	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2009

	Note	**As at 30 June 2009** *HK$'000* **(Unaudited)**	As at 31 December 2008 *HK$'000* (Audited)
Non-current assets			
Property, plant and equipment		**793**	931
Current assets			
Inventories		**12,672**	12,406
Trade and other receivables	*8*	**102,360**	91,712
Bank balances and cash	*9*	**16,819**	12,353
		131,851	116,471
Current liabilities			
Trade and other payables	*10*	**60,865**	57,945
Bank borrowings	*11*	**42,607**	27,667
Convertible note		**–**	28,912
Provisions		**19,850**	15,028
Tax payable		**342**	151
		123,664	129,703
Net current assets/(liabilities)		**8,187**	(13,232)
Total assets less current liabilities		**8,980**	(12,301)
Non-current liabilities			
Convertible note		**(22,866)**	–
Net liabilities		**(13,886)**	(12,301)
Capital and reserves attributable to the owners of the Company			
Share capital		**19,078**	19,078
Reserves		**(48,994)**	(47,077)
		(29,916)	(27,999)
Minority interests		**16,030**	15,698
Total equity		**(13,886)**	(12,301)

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2009

1. BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure requirements of Appendix 6 to the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange"), including compliance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issuance on 19 November 2009.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the annual financial statements for the year ended 31 December 2008. These condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"). HKFRSs include all applicable HKFRS, HKAS and related interpretations.

The auditors have expressed a modified opinion on the financial statements for the financial year ended 31 December 2008 in their report dated 30 April 2009 due to the fact that the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern.

In preparing the interim financial report, the directors have considered the future liquidity of the Group in view of its net liabilities position as at 30 June 2009. The Group sustained loss attributable to owners of the Company of HK$4,982,000 for the six months ended 30 June 2009 (Six months ended 30 June 2008: HK$4,503,000). At 30 June 2009, the Group had net current assets of HK$8,187,000 (As at 31 December 2008: net current liabilities of HK$13,232,000) and net liabilities of HK$13,886,000 (As at 31 December 2008: HK$12,301,000) respectively.

Nevertheless, the interim financial report has been prepared on the assumption that the Group will continue to operate as a going concern in the foreseeable future. In the opinion of directors, the liquidity of the Group can be maintained in the coming year, after taking into account several measures adopted and to be adopted subsequent to the financial position date as further detailed below:

(i) Hong Jin Holdings Limited ("Hong Jin"), the parent and ultimate holding company of the Company in which Mr. Wu Kwai Yung held 70% beneficial interest, has committed to provide financial support to enable the Group to meet in full its liabilities as they fall due, both present and future;

(ii) the directors are currently looking into the cases in respect of the provisions and seeking legal advice as to the possible outcome and appropriate course of action to be taken in relation to these cases with the provisions of HK$19,850,000 already provided as at the financial position date.

In the opinion of the directors, in light of the measures adopted, together with the expected results of other measures and arrangements in progress and as planned, the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements. In addition, Tianjin Jinshun Pharmaceutical Co., Ltd. ("Tianjin Jinshun"), the 60% owned subsidiary of the Group, is engaged in trading of pharmaceutical products and the business of which formed the major business activities for the Group as a whole. The directors believe that the future funding generated from Tianjin Jinshun will sufficiently improve the financial and cash flow position and maintain the Group's ability to continue as a going concern. Accordingly, the directors are of the view that it is appropriate to prepare the interim financial report on a going concern basis.

Should the Group be unable to achieve the above and fail to continue in business as a going concern, adjustments would have to be made to restate the values of the assets to their immediate recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these adjustments have not been reflected in the interim financial report.

The condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2008, except as described below.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning 1 January 2009.

HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
Hong Kong Financial Reporting Standard ("HKFRS") 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Financial Instruments Disclosures – Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) – Interpretation ("Int") 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC) – Int 13	Customer Loyalty Programmes
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendments to HKFRS 5 that is effective for annual periods beginning on or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

HKAS 1 (Revised) has introduced a number of terminology changes, including revised titles for the condensed consolidated financial statements, and has resulted in a number of changes in presentation and disclosure.

HKFRS 8 is a disclosure standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The predecessor standard, HKAS 14 "Segment Reporting", required the identification of two sets of segments (business and geographical) using a risks and returns approach. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14 *(see Note 2)*.

The adoption of the new and revised HKFRSs has had no material effect on the reported results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new or revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRS 5 as part of Improvements to HKFRSs issued in 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[1]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
HKFRS 3 (Revised)	Business Combinations[1]
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC) – Int 18	Transfers of Assets from Customers[4]

[1] *Effective for annual periods beginning on or after 1 July 2009*

[2] *Amendments that are effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate*

[3] *Effective for annual periods beginning on or after 1 January 2010*

[4] *Effective for transfers on or after 1 July 2009*

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combinations for which the acquisition dates are on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. The directors of the Company anticipate that the application of other new or revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

2. SEGMENTAL INFORMATION

The Group has adopted HKFRS 8 "Operating Segments" with effect from 1 January 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (i.e. the board of directors of the Company) in order to allocate resources to the segment and to assess their performance. In contrast, the predecessor standard (HKAS 14 "Segment Reporting") required an entity to identify two sets of segments (business and geographical) using a risks and returns approach, with the entity's system of internal financial reporting to key management personnel serving only as the starting point for the identification of such segments. The application of HKFRS 8 has not resulted in the redesignation of the Group's reportable segments determined in accordance with HKAS 14, nor has the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss.

No separate analysis of financial information by operating segment is presented as the Group's revenue, results, assets and liabilities were all derived from its principal line of business of pharmaceutical and healthcare operation. All of the activities of the Group are based in the People's Republic of China ("PRC") and all of the Group's turnover and loss before taxation are derived from PRC. Accordingly, no further geographical segment information is presented.

3. TURNOVER

	Six months ended 30 June	
	2009	2008
	HK$'000	*HK$'000*
Sales of pharmaceutical products	**124,029**	93,028

4. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging the following:

	Six months ended 30 June	
	2009	2008
	HK$'000	*HK$'000*
(a) Finance costs		
Interest expenses on bank borrowings wholly repayable within five years	**1,077**	554
Imputed interest on convertible note	**2,292**	1,929
Other finance charges	**26**	–
	3,395	2,483
(b) Staff costs (including directors' remuneration)		
Salaries, wages and allowances	**1,373**	1,133
Retirement benefits scheme contribution	**99**	28
	1,472	1,161
(c) Other items		
Auditors' remuneration		
– audit services	**–**	–
– other services	**–**	259
	–	259
Cost of inventories	**117,737**	88,830
Depreciation	**141**	134
Operating lease charges for the leasing of properties	**406**	416
Net foreign exchange loss	**–**	1

5. INCOME TAX

(a) Income tax represents:

	Six months ended 30 June	
	2009	2008
	HK$'000	*HK$'000*
Current tax		
Hong Kong	**–**	–
PRC Enterprise Income Tax	**391**	459
	391	459

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong for the six months ended 30 June 2009 (Six months ended 30 June 2008: HK$Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

6. DIVIDENDS

The directors do not recommend any payment of interim dividend for the six months ended 30 June 2009 (Six months ended 30 June 2008: HK$Nil).

7. LOSS PER SHARE

(a) Basic

The calculation of basic loss per share for the six months ended 30 June 2009 is based on the loss attributable to owners of the Company of HK$4,982,000 (Six months ended 30 June 2008: HK$4,503,000) and the weighted average number of 953,906,963 ordinary shares (As at 30 June 2008: 953,906,963 ordinary shares) in issue during the period.

(b) Diluted

Diluted loss per share for the six months ended 30 June 2009 and 2008 has not been disclosed as the potential ordinary shares outstanding during the periods have an anti-dilutive effect on the basic loss per share for the periods.

8. TRADE AND OTHER RECEIVABLES

	As at 30 June 2009 HK$'000	As at 31 December 2008 HK$'000
Trade receivables *(note (a))*	**97,472**	88,899
Less: allowance for doubtful debts	**(24)**	(24)
	97,448	88,875
Other receivables, deposits and prepayments	**2,406**	1,596
Due from a minority shareholder of a subsidiary	**2,506**	1,241
	102,360	91,712

All of the trade and other receivables other than those for which an impairment allowance has been made are expected to be recovered within one year.

Included in trade receivables is HK$213,000 (As at 31 December 2008: HK$160,000) and HK$Nil (As at 31 December 2008: HK$297,000) due from a minority shareholder of a subsidiary and a related company respectively.

Note:

(a) Ageing analysis

Included in trade and other receivables are trade receivables net of allowance for doubtful debts of HK$24,000 (As at 31 December 2008: HK$24,000) with the following ageing analysis as of the financial position date:

	As at 30 June 2009 HK$'000	As at 31 December 2008 HK$'000
Within 90 days	**71,000**	62,244
91 days to 180 days	**17,768**	23,321
181 days to 365 days	**8,579**	2,571
Over 365 days	**101**	739
	97,448	88,875

(b) The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period ranging from 30 to 180 days (As at 31 December 2008: 30 to 180 days). The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

(c) Certain trade receivables with an aggregate carrying amounts of approximately HK$49,372,000 (As at 31 December 2008: HK$33,071,000) are pledged to banks for bank loans *(Note 11(b))* granted to the Group.

9. BANK BALANCES AND CASH

	As at 30 June 2009	As at 31 December 2008
	HK$'000	*HK$'000*
Cash at bank and on hand	**16,819**	12,353

Certain bank deposits with an aggregate carrying amounts of approximately HK$3,802,000 (As at 31 December 2008: HK$1,131,000) and HK$50,000 (As at 31 December 2008: HK$50,000) are pledged to banks for bills payable *(Note 10(c))* granted to the Group and to secure corporate credit card account of the Group respectively.

10. TRADE AND OTHER PAYABLES

	As at 30 June 2009	As at 31 December 2008
	HK$'000	*HK$'000*
Trade payables *(note (a) & (b))*	**39,287**	41,598
Bills payable, secured *(note (c))*	**3,802**	3,527
Other payables and accruals	**10,795**	6,805
Due to directors	**84**	–
Due to minority shareholders of a subsidiary	**6,897**	6,015
	60,865	57,945

All of the trade and other payables (including amounts due to directors and minority shareholders of a subsidiary) are expected to be settled within one year or are repayable on demand.

Note:

(a) The following is an ageing analysis of the trade payables as at the financial position date:

	As at 30 June 2009	As at 31 December 2008
	HK$'000	*HK$'000*
Within 90 days	**31,170**	33,238
91 days to 180 days	**3,238**	6,331
181 days to 365 days	**4,404**	1,408
Over 365 days	**475**	621
	39,287	41,598

(b) Included in trade payable is HK$Nil (As at 31 December 2008: HK$2,252,000) due to a related company.

(c) As at 30 June 2009, bills payable are secured by certain bank deposits of the Group with an aggregate carrying amounts of approximately HK$3,802,000 (As at 31 December 2008: HK$1,131,000) *(Note 9)* and properties of a key management personnel of Tianjin Jinshun and a staff.

11. BANK BORROWINGS

	As at 30 June 2009	As at 31 December 2008
	HK$'000	*HK$'000*
Bank loans, secured *(note (b))*	**42,607**	27,667

As at the financial position date, the borrowings were repayable as follows:

	As at 30 June 2009	As at 31 December 2008
	HK$'000	*HK$'000*
Within one year	**42,607**	27,667

Note:

(a) At 30 June 2009, the Group has total banking facilities amounted to HK$56,818,000 (As at 31 December 2008: HK$31,194,000) in which HK$42,607,000 (As at 31 December 2008: HK$27,667,000) of bank loans and HK$3,802,000 (As at 31 December 2008: HK$3,527,000) of bills payable *(Note 10)* have been utilised.

(b) Bank loans of HK$42,607,000 (As at 31 December 2008: HK$27,667,000) bear interest at rates ranging from 5.31% to 5.35% (As at 31 December 2008: 5.54% to 6.83%) per annum and are secured by certain trade receivables of the Group with an aggregate carrying amounts of approximately HK$49,372,000 (As at 31 December 2008: HK$33,071,000) *(Note 8(c))*.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

During the first half of 2009, keen competition in the pharmaceutical market still existed and tight supervision over the drug prices by the government in the PRC remained the same. Despite these adverse conditions, the Group still saw improvements in our operations and financial position during the period under review.

Financial results

The 60% owned subsidiary of the Company in Tianjin, the PRC, Tianjin Jinshun Pharmaceutical Co., Ltd. ("Tianjin Jinshun") recorded growth in this period. As a result, consolidated turnover recorded by the Group for the six months ended 30 June 2009 was approximately HK$124,029,000 representing an increase of approximately 33.3% from HK$93,028,000 for the six months ended 30 June 2008.

Other revenue dropped by about 24.8% to HK$431,000 for the six months ended 30 June 2009. Other income for the period was HK$5,373,000 being gain on adjustment of amortised cost of convertible note (the "Note") upon extension of its maturity date from 31 March 2009 to 30 September 2010. (Six months ended 30 June 2008: HK$Nil).

Administrative expenses for the period increased by 127.4% to HK$12,296,000 (Six months ended 30 June 2008: HK$5,408,000) because of the increase of legal and consultancy fees on the resumption of the trading of the shares of the Company. For the period, legal fees incurred were HK$1,610,000 (Six months ended 30 June 2008: HK$1,418,000) and consultancy fee incurred were HK$550,000 (Six months ended 30 June 2008: HK$200,000). In addition, the Company have made provision of HK$5,000,000 for potential claim of costs in the legal action (Six months ended 30 June 2008: HK$Nil).

Finance costs for the period were HK$3,395,000 (Six months ended 30 June 2008: HK$2,483,000) representing an increase of 36.7%. Finance costs consists of interest expenses on bank borrowings of HK$1,077,000 (Six months ended 30 June 2008: HK$554,000) and imputed interest on the Note of HK$2,292,000 (Six months ended 30 June 2008: HK$1,929,000) and other finance charges of HK$26,000 (Six months ended 30 June 2008: HK$Nil).

Even there is improvement of profit from Tianjin Jinshun, however, due to various factors aforementioned above, the unaudited consolidated loss reported for the period was increased to HK$4,650,000 as compared to a loss of HK$4,023,000 during the same period in 2008.

Loss per share for the period was HK0.52 cents (Six months ended 30 June 2008: HK0.47 cents) because of the loss recorded for the period.

Review of operations

The PRC

During the period under review, the Chinese government continued to strengthen supervision over drug prices and expanded the scope of drugs under government-set pricing. As drug manufacturers and distributors in the PRC have to comply with the existing pricing caps in dealing with the regulated drugs, competition remained stiff within the pharmaceutical industry.

In spite of the adverse circumstances, the Group continued to distribute its existing products and generated approximately HK$124,029,000 for the first half of 2009 which accounted for 100% of the total turnover of the Group (Six months ended 30 June 2008: 100%).

Hong Kong

The Group was reviewing and restructuring its pharmaceutical and healthcare business during the review period to enhance the performance of this business segment. As the business was under restructuring, turnover in the first half of 2009 was HK$Nil and accounted for Nil% (Six months ended 30 June 2008: Nil%) of the total turnover of the Group.

During the six months ended 30 June 2009, there were no material acquisitions and disposals of subsidiaries and associates.

Liquidity and financial resources

Total assets of the Group increased to approximately HK$132,644,000 as at 30 June 2009 (As at 31 December 2008: HK$117,402,000). Among the total assets, HK$131,851,000 (As at 31 December 2008: HK$116,471,000) were current assets including trade and other receivables of HK$102,360,000 (As at 31 December 2008: HK$91,712,000), cash and cash equivalents of HK$16,819,000 (As at 31 December 2008: HK$12,353,000) and inventories of HK$12,672,000 (As at 31 December 2008: HK$12,406,000).

At 30 June 2009, the Group had total liabilities of HK$146,530,000 (As at 31 December 2008: HK$129,703,000). Non-current liabilities of the Group as at the financial position date included the principal amount of the Note of HK$30,000,000 (the carrying amount of which was HK$22,866,000 (As at 31 December 2008: included in current liabilities of HK$28,912,000) held by the controlling shareholder of the Company. The Note was issued to Hong Jin Holdings Limited ("Hong Jin") and will be mandatory and automatically converted into ordinary shares of the Company upon, inter alia, the trading of the shares of the Company resumes. During the period under review, the maturity date of the Note has been further extended by Hong Jin to 30 September 2010. The other current liabilities included mainly bank borrowings of HK$42,607,000 (As at 31 December 2008: HK$27,667,000), trade and other payables of HK$60,865,000 (As at 31 December 2008: HK$57,945,000) and provisions of HK$19,850,000 (As at 31 December 2008: HK$15,028,000) made in current and previous years for employee benefits and legal claims etc.

Gearing ratio (total liabilities as a percentage of total assets) of the Group of the current period is 110.5% (As at 31 December 2008: 110.5%). Current ratio of 106.6% as at 30 June 2009 is higher than that as at 31 December 2008 of 89.8%.

Most of the sales, sales-related costs and expenses, 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. Cash and bank balances were mainly in Renminbi but some lesser sum were in Hong Kong dollars. As such, no financial instruments had been used for hedging purpose. During the period, the Group had not been exposed to any material exchange rate fluctuation.

Charges on assets

As at 30 June 2009, certain assets of the Group with aggregate carrying value of approximately HK$53,224,000 (As at 31 December 2008: HK$34,252,000) were pledged to secure the Group's borrowings of HK$42,607,000 and bills payable of HK$3,802,000 and certain corporate credit card facilities granted to the Group as at 30 June 2009 respectively.

Employee remuneration policy and number of employees

As at 30 June 2009, the Group employed 45 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 reviewed annually by the Remuneration Committee.

Contingent liabilities

As at 30 June 2009, the Group did not have any significant contingent liabilities.

Outlook

The Group in the past participated as drug distributor in the PRC pharmaceutical market and had enjoyed the rapid growth of the industry. As the PRC pharmaceutical market is expected to grow continuously, the Group will continue to expand its operations in the pharmaceutical business.

The management notes that the profit margins of the distribution of pharmaceutical products had been improved to 5.1% (Six months ended 30 June 2008: 4.5%) despite of keen competition and stringent government pricing policy. In order to further improve the profitability of the Group and strengthen its competitiveness in the market, it is believed that development and distribution of its own pharmaceutical products will be the long-term strategy for the Group to pursue. The Group is currently identifying various pharmaceutical products with potential to be invested.

At the same time, the Company also solicits investors in making investments in and/or introducing new projects to the Group to assist its business to expand.

Trading of the shares of the Company has been suspended at the request of the Company since 13 May 2004. According to Rule 13.24 of the Listing Rules (the "Rules"), the Company shall carry out, directly or indirectly, sufficient 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 its shares. A proposal was submitted to the Hong Kong Stock Exchange ("HKEx") to demonstrate the Company's compliance with Rule 13.24 of the Rules. After reviewing the Company's proposal, the HKEx decided that the proposal was not viable. The Company applied to the Court of First Instance for judicial review against the HKEx's decision to cancel the listing status of the shares of the Company. The Court of First Instance ruled in favour of the Company on 4 June 2008 and quashed the decision of the HKEx. The HKEx appealed against the judgment of the Court of First Instance and the Court of Appeal ruled in favour of the HKEx on 9 July 2009 and overturned the judgment of the Court of First Instance. The Company has applied for leave to appeal against the judgment of the Court of Appeal to the Court of Final Appeal and hearing for leave to appeal to the Court of Final Appeal is fixed on 3 December 2009. During the course of legal proceedings the Company has submitted an enhanced proposal to the HKEx to update and demonstrate the Company's compliance with Rule 13.24 of the Rules, the HKEx had refused to consider the enhanced proposal submitted by the Company. The Company is determined in preserving the listing status of its shares on the HKEx and in achieving the resumption of trading of its shares. Further announcement(s) will be made by the Company in respect of this matter as and when appropriate.

AUDIT COMMITTEE

The Audit Committee has three members including Mr. Wong Ting Kon and Mr. Lim Hung Chun Mike both of them are independent non-executive directors and Mr. Yim Kai Pung who is a non-executive director.

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.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2009 (Six months ended 30 June 2008: 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 2009.

CONTINUING BREACH OF LISTING RULES

The Company announced on 16th July 2009 that following the resignations of Mr. Xu Zhi and Mr. Xu Quing Fah both independent non-executive directors of the Company, the Company had only one independent non-executive director and the audit committee of the Company had only one member, namely Mr. Wong Ting Kon. The Company therefore didn't meet the minimum number of independent non-executive directors required under Rule 3.01(1) of the Rules and audit committee requirements under Rule 3.21 of the Rules. Following the appointment of Mr. Lim Hung Chun Mike as independent non-executive director and the re-designation of Mr. Yim Kai Pung as non-executive director and member of audit committee of the Company, the Company had remedied the breach of Rule 3.21 of the Rules, however, the Company is still in continuous breach of Rule 3.01(1) of the Rules, the Company will try its best to appoint appropriate person to fill in the vacancy of independent non-executive director as soon as practicable.

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 to the Listing Rules throughout the accounting period covered by the interim report, except with the following deviations:

Code provision A.4.1 of the CG Code stipulates that the independent non-executive directors of the Company are not appointed for specific terms. However, all directors (executive, non-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 of Listed Issuers (the "Model Code") set out in Appendix 10 to 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.

DIRECTORS

As at the date of this announcement, the Executive Directors are Mr. Tso Hon Sai Bosco, Mr. Zhao Tie Liu and Mr. Liu Kwok Leung Paul, Non-executive Director is Mr. Yim Kai Pung and Independent Non-executive Directors are Mr. Wong Ting Kon and Mr. Lim Hung Chun Mike.

PUBLICATION OF FINANCIAL INFORMATION

The interim report of the Company for the six months ended 30 June 2009 will be despatched to the shareholders of the Company and published on the website of the Stock Exchange (www.hkex.com.hk) in due course.

By Order of the Board
Sanyuan Group Limited
Tso Hon Sai Bosco
Executive Director

Hong Kong, 19 November 2009