



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 2004

RESULTS

The Board of Directors (the “Board”) of Sanyuan Group Limited (the “Company”) announces the audited results of the Company and its subsidiaries (together the “Group”) for the year ended 31 December 2004 together with the comparative figures for the year ended 31 December 2003 as follows:

Consolidated Income Statement

	Note	2004 HK\$'000	2003 HK\$'000
Turnover	1	1,169	1,355
Other revenue		–	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		–	15,378
Guarantee income earned		–	5,803
Gain on disposal of subsidiaries		21,492	–
Loss on disposal of an associate		(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		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		(9,641)	(29,450)
Profit from ordinary activities before taxation		216,257	96,530
Taxation	2	–	6
Profit from ordinary activities		216,257	96,536
Minority interests		1,290	(304)
Profit attributable to shareholders		217,547	96,232
Earnings per share	3	45.9 HK cents	31.0 HK cents

Notes:**1. TURNOVER**

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

By business segments

The Group comprises the following main business segments:

	Property investment <i>HK\$'000</i>	Transportation services <i>HK\$'000</i>	Pharmaceutical and healthcare <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
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
	Property investment <i>HK\$'000</i>	Transportation services <i>HK\$'000</i>	Pharmaceutical and healthcare <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
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

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.

2. TAXATION

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
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.

3. 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.

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 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.

SUMMARY OF AUDITORS' OPINION

The auditors' report on the Group's financial statements as at and for the year ended 31 December 2004 has been qualified in relation to the existence of a fundamental uncertainty as follows:

Fundamental uncertainty

At the balance sheet date, both the Company and the Group had significant capital deficiencies. In forming the auditors' opinion, they 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, the auditors 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 the auditors' 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 the auditors' opinion, the financial statements have been properly prepared in accordance with the Companies Ordinance.

DIVIDEND

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 2004 (2003: 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 2004.

BUSINESS REVIEW

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 12 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 HK\$9,714,000 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 30 June 2004 and 30 September 2004 (“BOC Agreements”), the Bank confirmed that a bank loan owed by the Company and utilized by Landune International Limited (“SPI”) 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 (“SPI Settlement Agreement”).

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 31 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 23 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 12 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 31 December 2003 to 4.1% as at 31 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 31 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 31 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 31 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 31 December 2003.

Employee remuneration policy and number of employees

As at 31 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

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, 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 the Bank when the settlement under the SPI Settlement Agreement is revoked, occurrence of which is not considered probable. Subsequently, the Group and the Bank agreed, pursuant to the BOC Agreements, in the event of the revocation of the SPI Settlement Agreement, the Company shall pay to the Bank 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.

PROSPECTS

Trading of the share of the Company has been suspended at the request of the Company on 13 May 2004 and remains suspended. According to the Listing Rules, the Group is required to submit to the Stock Exchange a viable resumption proposal. After the debt restructuring and the subscription, the management has reviewed the Group's business operation and financial position and formulated business plans to expand the Group's existing business, particularly, the health care/pharmaceutical and property business in the People's Republic of China ("PRC"). The Group will keep seeking potential pharmaceutical/property projects in the PRC and soliciting other investors for additional funding for furthering our business developments

GenePro is now at the position to market its R&D products and expand its market share in DNA diagnostics. It is GenePro's on-going mission to develop advanced DNA/RNA diagnostic platforms for diseases, as well as forging collaborations with research institutes and/or biotechnology companies in the PRC and abroad in order to become a significant player in the pharmaceutical/biotechnology/healthcare field.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practices (the "Code") as set out in Appendix 14 of the Listing Rules of the Stock Exchange throughout the accounting period covered by the Company's annual report for the year ended 31 December 2004, except that the independent non-executive directors of the Company are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's Articles of Association. The Company has established an audit committee in accordance with paragraph 14 of the Code. In the opinion of the directors, this has met the objective of the 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 2004.

DIRECTORS

As at the date of this announcement, the Board comprises three Executive Directors, namely Mr. Wu Kwai Yung, Mr. Zhao Tie Liu, Dr. Wan Kwong Kee and three Independent Non-Executive Directors, namely Mr. Zhou Haijun, Mr. Ng Wai Hung and Mr. Xu Zhi.

PUBLICATION OF FINANCIAL INFORMATION

The annual report of the Company for the year ended 31 December 2004 containing all the information required by paragraphs 45(1) to 45(3) inclusive of Appendix 16 of the Listing Rules of the Stock Exchange, will be published on the website of the Stock Exchange in due course.

On behalf of the Board
Sanyuan Group Limited
Wu Kwai Yung
Chairman

Hong Kong, 21 April 2005

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