



# Broad Intelligence International Pharmaceutical Holdings Limited

## 博智國際藥業控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1149)

### ANNOUNCEMENT

The audited consolidated results of the Broad Intelligence International Pharmaceutical Holdings Limited (“The Company”) and together with its subsidiaries (“the Group”) for the year ended 31st December, 2004 are as follows:

	<i>Note</i>	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
Turnover			
Sales of pharmaceutical products	2	<b>233,897</b>	203,520
Cost of sales		<u>(139,212)</u>	<u>(121,998)</u>
Gross profit		<b>94,685</b>	81,522
Other revenue	2	<b>1,017</b>	667
Selling and distribution expenses		<b>(2,407)</b>	(2,117)
General and administrative expenses		<u><b>(12,098)</b></u>	<u>(11,616)</u>
Operating profits		<b>81,197</b>	68,456
Finance costs	4	<u><b>(116)</b></u>	<u>(342)</u>
Profit before taxation	5	<b>81,081</b>	68,114
Taxation	6	<u><b>(13,448)</b></u>	<u>(5,679)</u>
Profit attributable to shareholders	7	<u><b>67,633</b></u>	<u>62,435</u>
Dividends	8	<u><b>—</b></u>	<u>—</u>
Earnings per share – Basic	9	<u><b>HK\$16.9 cents</b></u>	<u>HK\$19.2 cents</u>

		<b>The Group</b>	
		<b>2004</b>	<b>2003</b>
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>53,937</b>	35,396
Intangible asset	<i>10</i>	<b>11,132</b>	—
Negative goodwill		<b>(753)</b>	(914)
		<b>64,316</b>	34,482
<b>CURRENT ASSETS</b>			
Inventories	<i>11</i>	<b>6,238</b>	6,135
Trade receivable	<i>12</i>	<b>36,220</b>	53,582
Prepayments, deposits and other receivable		<b>13,321</b>	3,443
Cash and bank balances		<b>180,605</b>	134,708
		<b>236,384</b>	197,868
<b>CURRENT LIABILITIES</b>			
Trade payable	<i>13</i>	<b>9,132</b>	14,632
Accruals and other payables		<b>19,926</b>	14,032
Bank overdraft, unsecured		<b>—</b>	243
Taxation		<b>2,390</b>	1,824
		<b>31,448</b>	30,731
<b>NET CURRENT ASSETS</b>		<b>204,936</b>	167,137
<b>NET ASSETS</b>		<b>269,252</b>	201,619
Represented by:			
<b>SHARE CAPITAL</b>		<b>40,000</b>	40,000
<b>RESERVES</b>		<b>229,252</b>	161,619
<b>SHAREHOLDERS' EQUITY</b>		<b>269,252</b>	201,619

*Notes:*

# **1. BASIS OF PRESENTATION**

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The financial statements have been prepared under the historical cost convention as modified for revaluation of certain property, plant and equipment.

In 2004, the Hong Kong Institute of Certified Public Accountants issued a number of new and revised Hong Kong Financial Reporting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004.

The Group has commenced an assessment of the potential impact of these new HKFRSs but is not yet in a position to determine whether these HKFRSs would have a significant impact on its results of operations and financial position.

## 2. TURNOVER AND OTHER REVENUE

Turnover represents the invoiced value of goods sold after deducting goods returned, trade discount and sale tax.

Turnover and other revenue consisted of:

	<b>2004</b> <b>HK\$'000</b>	2003 <i>HK\$'000</i>
Turnover		
Sales of pharmaceutical products	<u><b>233,897</b></u>	<u>203,520</u>
Other revenue		
Exchange gain	–	269
Interest income	<b>856</b>	237
Release of negative goodwill	<u><b>161</b></u>	<u>161</u>
	<u><b>1,017</b></u>	<u>667</u>
Total revenue	<u><b>234,914</b></u>	<u>204,187</u>

## 3. SEGMENT REPORTING

More than 95% of the operating profits and assets are attributable to the Group's operations, manufacturing and sales of pharmaceutical products in the PRC. Accordingly, no analysis by geographical and business segment is provided.

## 4. FINANCE COSTS

	<b>2004</b> <b>HK\$'000</b>	2003 <i>HK\$'000</i>
Interests on bank loan	–	342
Bank charges	<u><b>116</b></u>	<u>–</u>
	<u><b>116</b></u>	<u>342</u>

## 5. PROFIT BEFORE TAXATION

The profit before taxation are stated after charging the following:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Directors' remuneration		
– Fees	160	10
– Other emoluments	2,489	2,783
Auditors' remuneration	480	480
Research and development costs	530	242
Depreciation	3,073	1,959
<i>Less:</i> Amount included in research and development cost	(82)	(26)
	<u>2,991</u>	<u>1,933</u>
Staff costs (including directors' remuneration)		
Salaries and allowance	5,586	5,408
Contributions to retirement scheme	680	554
	<u>6,266</u>	<u>5,962</u>
<i>Less:</i> Amount included in research and development cost	(229)	(216)
	<u>6,037</u>	<u>5,746</u>
Deficit on revaluation of land and building	<u>–</u>	<u>758</u>

## 6. TAXATION

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
PRC enterprise income tax	<u>13,448</u>	<u>5,679</u>

- (i) Fujian Fuqing Pharmaceutical Co., Ltd. ("Fuqing Pharmaceutical"), which was formerly a PRC domestic enterprise, was subject to PRC enterprise income tax at a rate applicable to the company on the assessable profits for the year. With effect from 16 November 1999, Fuqing Pharmaceutical was changed from a domestic enterprise to a wholly-foreign owned enterprise and is exempted from PRC enterprise income tax for two years starting from the first year of profitable operations after offsetting prior year losses, followed by a 50% reduction for the next three years. The 50% tax reduction was expired on 31 December 2003.
- (ii) No provision for Hong Kong profits tax has been made as the Group had no assessable profits for the year (2003: Nil).
- (iii) The Group did not have any significant unprovided deferred taxation at 31 December 2004 (2003: Nil).

The reconciliation between the Group's profit for the year and the amount which is calculated based on the concessionary tax rate of 15% (2003: 7.5%) in PRC is as follows:

	<b>2004</b> <b>HK\$'000</b>	2003 <i>HK\$'000</i>
Profit before taxation for the year	<b><u>81,081</u></b>	<u>68,114</u>
Tax calculated at the tax rate of 15% (2003: 7.5%)	<b>12,162</b>	5,108
Expenses not deductible for taxation purposes	<b>759</b>	384
Release of negative goodwill	<b>(24)</b>	(12)
Temporary difference	<b><u>551</u></b>	<u>199</u>
Taxation	<b><u>13,448</u></b>	<u>5,679</u>

## 7. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders included a loss of approximately HK\$4,963,000 (2003: HK\$1,941,000) dealt with in the financial statements of the Company.

## 8. DIVIDENDS

No dividend was paid or prosposed by the Company during the year (2003: Nil).

## 9. EARNINGS PER SHARE

The calculation of basic earnings per share for the year is based on the consolidated profit attributable to shareholders of HK\$67,633,000 (2003: HK\$62,435,000) and the weighted-average number of 400,000,000 (2003: 325,666,000) ordinary shares in issue during the year.

Diluted earnings per share is not presented as there were no dilutive potential ordinary shares during the year (2003: Nil).

## 10. INTANGIBLE ASSET

	<b>The Group</b> <b>2004</b> <b>HK\$'000</b>	2003 <i>HK\$'000</i>
Patents		
Cost		
Additions during the year	<b>11,132</b>	—
Accumulated amortisation		
Provided during the year	<u>—</u>	<u>—</u>
Net book value		
At end of the year	<b><u>11,132</u></b>	<u>—</u>

## 11. INVENTORIES

	<b>The Group</b>	
	<b>2004</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Raw material	<b>3,443</b>	4,043
Finished goods	<b>2,795</b>	2,092
	<hr/>	<hr/>
Total	<b>6,238</b>	6,135
	<hr/>	<hr/>

At 31 December 2004, none of the inventories are stated at net realisable value (2003: Nil).

## 12. TRADE RECEIVABLE

The Group normally grants credit terms of 60 to 90 days to its customers.

The ageing analysis of trade receivable is as follows:

	<b>The Group</b>	
	<b>2004</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
0 to 30 days	<b>18,293</b>	27,462
31 to 60 days	<b>17,927</b>	24,672
61 to 90 days	–	878
91 to 180 days	–	570
	<hr/>	<hr/>
	<b>36,220</b>	53,582
	<hr/>	<hr/>

## 13. TRADE PAYABLE

The ageing analysis of accounts payable is as follows:

	<b>The Group</b>	
	<b>2004</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
0 to 30 days	<b>9,132</b>	14,632
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## CHAIRMAN'S STATEMENT

### Results Highlights

For the year ended 31 December 2004, the Group's consolidated turnover was HK\$234 million, up 15% from HK\$204 million of last year. Profit after tax was HK\$68 million, representing an increase of 8% over last year. Gross profit margin improved from last year's 40% to 40.5%. Basic earnings per share were HK\$16.9 cents.

### Awards and Achievements

In last November, the Company was pleased to be named as one of the 20 local listed companies with the most outstanding results and corporate governance in a survey conducted by "Economic Digest", an authoritative local economic journal with a long history in Hong Kong.

In May 2004, the Group's products were granted the award of the "2003 Consumers' Choice in Fujian" (2003年福建省用戶滿意產品) by the Fujian Society of Quality Assurance (福建省質量協會). Then in August 2004, the Company was recognised as a "2002-2004 High Growth Industrial Enterprise in Fujian" (2002-2004年度福建省高成長型工業企業) and among the "Top 10 Corporates in the Leading Industries of Fujian" (福建省工業主要行業前十強) by Fujian Business Appraisal Centre (福建省企業評價中心) and the Fujian Chamber of Commerce (福建省企業協會). More recently in February 2005, Fujian Fuqing Pharmaceutical Co., Ltd. was accredited as one of the "Top Ten Private Enterprises in Fuqing".

## **Exploring Overseas Markets**

During the year, the Company made its first step for setting its foothold in overseas markets. In October 2004, it was granted the permits to deal in and to possess substances to which the Antibiotics Ordinance (Chapter 137 of the Laws of Hong Kong), and the permits for the reselling of poisons issued by the Pharmacy and Poisons Board under the Pharmacy and Poisons Ordinance (Chapter 138 of the Laws of Hong Kong). So far, the Company has submitted applications for a number of products, selected with reference to market demand, for reselling in Hong Kong, which are pending for approval.

## **Dividends**

In order to strengthen our competitiveness and competitive advantages, the Group has decided to further development and expansion of the existing production capacity, and to identify potential companies for acquisition. So, the Board does not recommend payment of any final dividend for the year ended 31 December 2004.

## **Business Review**

The Group's results for the year were very encouraging, primarily attributable to its various competitive advantages. In line with its brilliant results, the Group's sales and profit recorded remarkable growth. For the year ended 31 December 2004, consolidated turnover of the Group was HK\$234 million, representing a year-on-year growth of 15% from the consolidated turnover of HK\$204 million last year. Profit after tax was HK\$68 million, up 8% from the previous year. Profit margin improved from 40% last year to approximately 40.5%. Sales of large volume parenteral solution was approximately HK\$53 million in 2004. The management of the Company exercised stringent cost control, quality assurance and expenses control, so as to minimize production and management costs and improve flexibility and efficiency. By improving its productivity and product quality and expanding its operation network, the Group has built up a robust foundation for the further development of its business. Its basic earnings per share were HK\$16.9 cents.

## **Outlook and Prospect**

Building on its experience in the manufacturing and sale of pharmaceutical products, extensive marketing network and an elite team of advisors with professional experience and expertise, the Group has identified the following initiatives in the coming year:

### *Acquiring and maintaining land reserve*

In 2004, application has been filed with by the Company with the relevant State-owned Land Bureau regarding the purchase of a parcel of land of approximately 3,890 sq.m. adjacent to the Fuqing Plant. Following the completion of geological survey in February 2004, construction of a six-storey workshop complex has been completed by the end of 2004 with the relevant land use right certificate obtained. Capital expenditures in respect of the purchase of the land and construction were approximately RMB20 million.

In addition, the Company has filed a request to the relevant State-owned Land Planning Bureau of Fuqing Ronqiao Economic and Technology Development Zone (福清融僑經濟技術開發區國土規劃建設局) in respect of a parcel of land with a site area of approximately 100 Chinese acres in proximity to the Fuqing Plant. It is the intention of the Company to reserve the parcel of land for the construction of a new plant, production lines and facilities should the need arise.

### *Production lines and scope of production*

The Group's production lines are almost working at their maximum capacity. The existing production facilities may not be able to satisfy the potential demand in future. Given that the launch of new pharmaceutical products is key to maintaining its strong competitiveness and performance, the Group plans to upgrade its productivity and production volume by setting up six GMP-certified production lines in the new complex. It is expected that the GMP certificates will be obtained in the first half of 2005, with commercial production launched within the year.

New products of the Group include granules, powders, herbal teas, solutions, syrups, eye drops, ear drops, aerosols and tinctures (for external application). It is expected that 10-20 new products will be submitted for approval by the relevant departments in the year.

### **New Products**

In early 2005, a subsidiary of the Company acquired 39 pharmaceutical formulae developed by a pharmaceutical manufacturer. These pharmaceuticals include medicine for the treatment of pains caused by influenza and bronchitis; product for the prevention of respiratory infection caused by influenza A virus; brain tonic; product for treatment of infection from haemolytic streptococcus, meningococcus and pneumococcus; dermatological; product for rhinitis and paranasal sinuses; eye tonic; supplements; detoxification products; lipid lowering agent.

The new production complex of the Company produced a wide diversity of products in 2005. In addition to the large and small volume parenteral solutions, there were also new products such as granules, powders, herbal teas, solutions, syrups, eye drops, ear drops, aerosols and tinctures (for external application), in particular:

<b>Product</b>	<b>Form</b>	<b>Medical Application</b>
Anti-diabetes Tea (降糖茶) (Note 1)	Herbal tea	For treatment of diabetes and the lowering of blood sugar and lipid 用於糖尿病、降糖降脂
Olive Granules (橄欖晶沖劑) (Note 2)	Granule	A proprietary Chinese medicine with no side effect. It can strengthen the stomach, reduce stomach gas, help digestion with appetising effect, sobering, stop vomiting, facilitates breathing and diarrhoea caused by infections 沒有副作用之中成藥。健胃下氣、消滯、增進食欲、醒酒止嘔、胸腔痞滿、暑濕腹瀉
Naphazoline Hydrochloride Nasal Drop (鹽酸萘甲唑林滴鼻劑)	Nasal drop	A vasoconstrictive medicine that treats influenza, rhinitis and nasal congestion 血管收縮藥、治療傷風鼻炎、鼻充血



Product	Form	Medical Application
Sulfadiazine Suspension (磺胺嘧啶混懸液)	Suspension	For treatment of infection from haemolytic streptococcus, meningococcus and pneumococcus 用於血性鏈球菌、腦膜炎球菌、肺炎球菌
Glycerin suppositories (甘油栓)	Suppository	For treatment of constipation 用於便秘
Methyl Salicylate Aerosol (水楊酸甲酯氣霧劑)	Aerosol	For emergent treatment of soft tissue damages 用於軟組織損傷的應急治療
Lidocaine and Chlorhexine Acetate Aerosol 利多卡因氯己定氣霧劑	Aerosol	For treatment of cuts, scratches, heat rashes and sunburns 用於割傷、擦傷、熱疹、曬傷等

*Note 1:* This product, effective in reducing the blood sugar and cholesterol level, is used for the treatment of diabetes. Demonstrating a high degree of efficacy in State-approved clinical tests, the product is, similar to other Chinese drugs, free of toxins and undesirable side effects. Based on the statistics of health organisations in the PRC, there are approximately 100-150 billion of diabetic patients. This product, easy to take and carry, has a very strong therapeutic value and a good market potential.

*Note 2:* This product, developed in response to market demand, is a registered patent product in the PRC. It is the first 100% pure Chinese medical solution developed and produced in China and around the globe with the use of advanced extraction technology. It has a high therapeutic value as a tonic for the liver and for treatment of gastrointestinal diseases, particularly stomach diseases. It is also good for the relief of hangover and is free of undesirable side effects. This product is well received by the market.

Market potential: China, with a population of 1.3 billion, is a densely populated country. Its ongoing social development leads to an increase in work pressure and the pace of life, and people are not taking good care of their diet. The result is an increase in popularity of stomach diseases. At the same time, people are more and more concerned about the toxic side effects of chemical drugs. As a result, there is an increase in acceptance for natural Chinese drugs. This product has been proved to be free of toxic side effects in clinical tests. Based on the statistics of health organisations, there are approximately 300 million patients suffering from stomach diseases and the situation is particularly serious for the middle-aged and the elderly. However, more and more younger generations are also found to suffer from these diseases. Therefore this product has a very huge market and has sound development potential.

## Acquisitions

In pursuit of the best value for our shareholders, the Group will continue to identify potential companies for acquisition. The Group will carefully study and analyse the potential contributions from such acquisitions. Currently, the Group is engaged in negotiations in this regard with companies engaged in the sale, distribution and manufacturing of pharmaceutical products. The Group believes that vertical and horizontal expansions enabled by such acquisitions will strengthen its competitiveness with an extensive network covering provinces including Guangxi, Guizhou, Henan and Fujian.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Sales of products**

In 2004, the Group offered 40 types of products, which were all sold in the PRC and denominated in Renminbi. Customers of the Group mainly comprised licensed pharmaceutical distributors, hospitals and clinics in the PRC. The Group's 4 major products together accounted for 63% of the total turnover.

### **Financial information**

The Group had cash and bank balances totalling HK\$181 million as at 31 December 2004. As the Group had no outstanding bank loan on the same day, the gearing ratio was zero (2003: 0%). The current and quick ratios both improved, from 6.44 and 6.24 respectively in 2003 to 7.52 and 7.32 respectively in 2004. As at 31 December 2004, the debtors turnover period, inventory turnover period and creditors turnover period were 57 days, 10 days and 24 days respectively (2003: 96 days, 11 days and 42 days respectively).

Overall, the Group has a sound financial position to support its future development.

### **Contingent liabilities**

As at 31 December 2004, the Group and the Company did not have any significant contingent liability (2003: Nil).

### **Interest Rate and Currency Exposure**

The Group has no material currency and interest rate exposure.

### **Changes in the Group's Composition**

Since listing up to 31 December 2004, the Group did not acquire or sell any subsidiary.

### **Dividends**

In order to strengthen our competitiveness and competitive advantages, the Group has decided to further development and expansion of the existing production capacity, and to identify potential companies for acquisition. So, the Board does not recommend payment of any final dividend for the year ended 31 December 2004.

### **Audit Committee**

The audit committee has three members, including the Company's three independent non-executive Directors, namely, Mr. Pei Renjiu, Mr. Li Kai Ming and Mr. Cheung Chuen. The duties of the audit committee are to review the Company's annual report and accounts, interim reports and to provide advice and comments thereon to the Board. In addition, the audit committee will consider any significant and unusual items that are, or may need to be reflected in such reports and accounts and must give due consideration to any matter that has been raised by the Company's qualified accountant, compliance officer and auditors. The audit committee is also responsible for reviewing and supervising the financial reporting process and the internal control system of the Group. Four meetings were held during the current financial year to review the unaudited interim financial statements for the 6 months ended 30 June 2004 and the audited financial statements for the year ended 31 December 2004.

## **Employees and remuneration policy**

As at 31 December 2004, the Group had a total of 248 employees (2003: 243). The increase in headcount was to cater for operating needs. The Group regularly reviews remuneration and benefits of employees according to the relevant market practice and individual performance of the employees. In addition to basic salary, employees are entitled to other benefits including staff provident fund scheme and discretionary bonus scheme.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

## **PUBLICATION OF ANNUAL RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")**

The 2004 Annual Report containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange will be published on the website of the Stock Exchange in the due course.

## **CODE OF BEST PRACTICE AND CORPORATE GOVERNANCE**

In the opinion of the directors, the Company has complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited throughout the accounting year covered by the Annual Report, except that independent non-executive directors are not appointed for a specific term as required by paragraph 7 of the Code, but are subject to retirement by rotation at the annual general meeting of the Company in accordance with the bye-laws of the Company.

## **MODEL CODE**

During the accounting period covered by this Annual Report, the Company had complied with the Model Code for Securities Transactions by Directors as set out in Appendix 10 of the Listing Rules. After making inquiry of the directors, the Company confirmed that the directors of the Company had complied with the provisions of the Model Code for Securities Transactions by Directors.

## **APPRECIATION**

I would like to take this opportunity to extend my deepest gratitude to the directors and staff as a whole for their immense contribution, dedication and diligence over the year.

## **DIRECTORS**

As at 11 April, 2005, the Board of Directors of the Company comprises of eight directors, of which five are Executive Directors, namely Mr. Zhong Houtai, Chairman, Mr. Zhong Houyao, Mr. Chong Hoi Fung, Mr. Sun Daquan, Mr. Chai Chung Wai and three Independent Non Executive Directors, namely Mr. Pei Renjiu, Mr. Li Kai Ming and Mr. Cheung Chuen.

By Order of the Board  
**Zhong Houtai**  
*Chairman*

11 April, 2005

"Please also refer to the published version of this announcement in The Standard"