



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, 2003 are as follows:

	<i>Note</i>	2003 HK\$'000	2002 <i>HK\$'000</i>
Turnover			
Sales of pharmaceutical products	2	203,520	146,743
Cost of sales		(121,998)	(90,686)
Gross profit		81,522	56,057
Other revenue	2	667	435
Selling and distribution expenses		(2,117)	(1,807)
General and administrative expenses		(11,616)	(4,289)
Operating profits		68,456	50,396
Finance costs	4	(342)	(214)
Profit before taxation	5	68,114	50,182
Taxation	6	(5,679)	(3,941)
Profits attributable to shareholders		62,435	46,241
Dividends	7	—	19,632
Earnings per share	8	HK19.2 cents	HK14.6 cents

Note:

1. BASIS OF PRESENTATION

The financial statements of the Company and the Group are reported in Hong Kong Dollars. Accordingly, the figures for 31st December, 2002, which were stated in the Prospectus in Renminbi, have been re-translated into Hong Kong Dollars for comparison purpose.

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.

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:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Turnover		
Sales of pharmaceutical products	<u>203,520</u>	<u>146,743</u>
Other revenue		
Exchange gains	269	–
Subcontracting income	–	164
Interest income	237	110
Release of negative goodwill	<u>161</u>	<u>161</u>
	<u>667</u>	<u>435</u>
Total revenue	<u><u>204,187</u></u>	<u><u>147,178</u></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

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Interests on bank loan	<u>342</u>	<u>214</u>

5. PROFIT BEFORE TAXATION

The profit before taxation are stated after charging the following:

	2003 HK\$'000	2002 HK\$'000
Directors' remuneration		
– Fees	10	–
– Other emoluments	2,783	86
Auditors' remuneration	480	16
Research and development costs	242	168
Depreciation	1,959	1,506
Less: Amount included in research and development cost	(26)	(19)
	<u>1,933</u>	<u>1,487</u>
Staff costs (including directors' remuneration)		
Salaries and allowance	5,408	4,380
Contributions to provident fund	554	189
	<u>5,962</u>	<u>4,569</u>
Less: Amount included in research and development cost	(216)	(141)
	<u>5,746</u>	<u>4,428</u>
Deficit on revaluation of land and building	<u>758</u>	<u>–</u>

6. TAXATION

	2003 HK\$'000	2002 HK\$'000
PRC enterprise income tax	<u>5,679</u>	<u>3,941</u>

- (i) Fujian Fuqing Pharmaceutical Co., Ltd. ("Fuqing"), 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 16th November, 1999, Fuqing 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.
- (ii) No provision for Hong Kong profits tax has been made as the Group had no assessable profits for the year (2002: Nil).
- (iii) The Group did not have any significant unprovided deferred taxation at 31st December, 2003 (2002: Nil).

7. DIVIDENDS

No dividend has been paid or declared by the Company since its date of incorporation. During the year ended 31st December, 2002, certain companies of the Group had paid dividends to their then shareholders prior to the Group reorganisation. Details of dividends are as follows:

	2003 HK\$'000	2002 HK\$'000
Fujian Fuqing Pharmaceutical Co., Ltd.	33,019	19,632
Long Master International Ltd.	<u>–</u>	<u>19,632</u>
	33,019	39,264
<i>Less:</i> Elimination of dividends from intra-group companies	<u>(33,019)</u>	<u>(19,632)</u>
	<u><u>–</u></u>	<u><u>19,632</u></u>

8. EARNINGS PER SHARE

The calculation of basic earnings per share for the year is based on the consolidated profit attributable to shareholders of approximately HK\$62,435,000 (2002: HK\$46,241,000) and the weighted average number of 325,666,000 shares (2002: 316,000,000 shares).

Diluted earnings per share is not presented as there were no dilutive potential ordinary shares during the year (2002: Nil).

The rates of dividend and the number of shares ranking for dividends are not presented as such information is not meaningful having regards to the purpose of this report.

CHAIRMAN'S STATEMENT

Results Highlights

For the year ended 31st December, 2003, consolidated turnover of the Group amounted to HK\$204 million, representing a year-on-year growth of 39% from the HK\$147 million last year. Profit after tax was HK\$62.4 million, up 35% from last year. Basic earnings per share was HK19.2 cents (2002: HK14.6 cents).

Dividends

In 2004, the Company embarked on certain plans to expand the existing production lines and acquire new production lines, land and plants. These plans were funded by proceeds from the listing and internal resources of the Company. As such, the board of directors does not recommend the distribution of any final dividend for the year ended 31st December, 2003.

Business Review

The general economy was subject to uncertainties in 2003 as a result of the wide spread impact of the outbreak of Severe Acute Respiratory Syndrome (“SARS”) in Asia. In spite of this, the directors were optimistic about the Group’s future prospect. As a result of its competitive advantages and outstanding performance, the Group achieved satisfactory results with remarkable growth in terms of sales and profit recorded. For the year ended 31st December, 2003, consolidated turnover of the Group amounted to HK\$204 million, representing a year-on-year growth of 39% from the HK\$147 million last year. Profit after tax was HK\$62.4 million, up 35% from last year. Gross profit margin improved from 38% last year to approximately 40%. The increase in consolidated turnover of the Group was primarily attributable to the large-scale production of large volume parenteral solution in September 2003 subsequent to the renewal of the relevant GMP certification in August 2003. The sales of large volume parenteral solution for the year 2003 was approximately HK\$19 million. Another major factor contributing to the increase in turnover was a rise of 4% in the selling price of one of the Company’s products as a result of high market demand. The sales of such product accounted for 33% of the turnover of the Group for the year. 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.

Outlook and Prospect

Building on its experience in the manufacturing and sale of pharmaceutical products, extensive marketing network and a elite team of advisors with professional experience and expertise, the Group will has identified the following initiatives in the coming year in addition to those referred to in the Prospectus:

Acquiring land

Application has been filed with preliminary procedures completed by the Company with the relevant State-owned Land Bureau regarding the purchase of a parcel of land of approximately 1,500 sq.m. adjacent to the Fuqing Plant. It is our plan to construct a five-storey workshop complex at the site. The building blueprint and geology reports have been completed. It is expected that the proposed plant, with a total gross area of approximately 7,500 sq.m., will be completed and operational in the second half of 2004.

Expanding production lines

The Group’s production lines are currently working at their maximum capacity and may not be able to satisfy the increasing demand for pharmaceutical products. The launch of new pharmaceutical products is key to maintaining the strong competitiveness and business performance of the Group. In view of this, the Group plans to boost its productivity and production volume by setting up three to five GMP-certified production lines in the new complex. It is expected that the GMP certificates can be obtained by the end of 2004 and commercial production can subsequently be launched in 2005.

Extending scope of production

Fuqing Pharmaceutical, a wholly-owned subsidiary of the Company, has obtained approval from the Drug Administration of Fujian Province for the construction of new GMP-certified production facilities within the company's complex. Qualified firms for pharmaceutical construction planning will be appointed for the design and planning of the new facilities.

The new production scopes approved cover granule, powder, herbal tea, solution, syrup, eye drop, ear drop, inhalant and tincture (for external application). It is expected that 10–20 new products will be submitted for approval by the relevant departments in the year.

These new products are expected to contribute significantly to the growth in turnover and profit.

Acquisitions

In pursuit of the best value for our shareholders, the Group is in negotiation with over six companies in respect of their potential acquisition. Two to three of these companies will be selected for detailed study and analysis of the possible benefits they may bring to the Group. These companies in negotiation are engaged in the sale, distribution and manufacturing of pharmaceutical products. The Group believes that vertical and horizontal expansions enabled by such potential acquisitions will strengthen its competitiveness with an extensive operation network covering provinces including Guangxi, Guizhou, Henan and Fujian.

MANAGEMENT DISCUSSION AND ANALYSIS

Sales of products

The Group had 26 products for sell in 2003. All such products were sold in the PRC and denominated in Renminbi. Customers of the Group mainly comprised licensed pharmaceutical distributors, hospitals and clinics in the PRC. The seven major products of the Group in aggregate accounted for 88% of the total turnover.

Financial information

The Group had cash and bank balances totaling HK\$134 million as at 31st December, 2003. As the Group has no outstanding bank loan, there is no gearing ratio (2002: 6%). Current ratio and quick ratio both improved from 2.13 and 2.03 in 2002 respectively to 6.44 and 6.24 in 2003 respectively. As at 31st December, 2003, debtors turnover period, inventory turnover period and creditors turnover period was 96 days, 11 days and 26 days respectively (2002: 66 days, 16 days and 28 days). The increase in debtors turnover period was primary attributable to the fast that sales in November and December 2003 amounted for 23% of the total sales for the year.

Generally speaking, the Group has a sound financial position providing strong support for its future development.

Interest Rate and Currency Exposure

The Group has no material currency and interest rate exposure.

Changes in Group Composition

During the year ended 31st December, 2003, the Group has not acquired or sold any subsidiaries subsequent to its listing.

Use of proceeds from IPO

The proceeds from the issue of new shares as part of the listing of the Company on the Stock Exchange on 24th November, 2003 was approximately HK\$68 million, net of the relevant expenses. Such will be applied as set out in the prospectus. To the extent any proceeds were not applied, they are placed in banks in Hong Kong and commercial banks in the PRC as short term deposits.

Audit committee

The Company has established its audit committee on 3rd November, 2003 with written terms of reference in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group.

The audit committee has two members comprising the Company's two independent non-executive Directors, namely Mr. Pei Renjiu (裴仁九先生) and Mr. Li Kai Ming (李開明先生). The primary 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 will also be responsible for reviewing and supervising the financial reporting process and the Group's internal control system.

Two meetings were held during the current financial year.

Employees and remuneration policy

As at 31st December, 2003, the Group has a total of 243 employees (2002: 167). 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.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 20th May, 2004 to 25th May, 2004, both days inclusive, during which period no transfer of shares will be registered.

In order to qualify for attending the annual general meeting to be held on 25th May, 2004, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Branch Registrars in Hong Kong, Standard Registrars Ltd., G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wan Chai, Hong Kong not later than 4:00 p.m. on 19th May, 2004.

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 2003 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 the non-executive director and 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.

APPRECIATION

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

DIRECTORS

As at 19th April, 2004, the Board of Directors of the Company comprises of seven 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 two Independent Non Executive Directors, namely Mr. Pei Renjiu, Mr. Li Kai Ming

By Order of the Board
Zhong Houtai
Chairman

19th April, 2004

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