



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)

INTERIM RESULT ANNOUNCEMENT 2005

The Board of directors (the “Board”) of Broad Intelligence International Pharmaceutical Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30th June, 2005, together with the comparative figures for the corresponding period in 2004.

The interim financial statements have not been audited, but have been reviewed by the Audit Committee and the auditors of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30th June,	
		2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
	Note		
TURNOVER	4	110,025	120,692
COST OF SALES		<u>(65,002)</u>	<u>(69,546)</u>
GROSS PROFIT		45,023	51,146
OTHER REVENUE	4	348	317
SELLING AND DISTRIBUTION EXPENSES		(1,108)	(1,308)
GENERAL AND ADMINISTRATIVE EXPENSES		<u>(6,492)</u>	<u>(4,145)</u>
PROFIT FROM OPERATIONS		37,771	46,010
FINANCE COSTS		<u>(1)</u>	<u>—</u>
PROFIT BEFORE TAXATION	5	37,770	46,010
INCOME TAX	6	<u>(5,958)</u>	<u>(7,255)</u>
PROFIT ATTRIBUTABLE TO SHAREHOLDERS		<u>31,812</u>	<u>38,755</u>
DIVIDEND	7	<u>—</u>	<u>—</u>
EARNINGS PER SHARE – BASIC	8	<u>HK7.95 cents</u>	<u>HK9.69 cents</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		At 30th June, 2005 (Unaudited) HK\$'000	At 31st December, 2004 (Audited) (Restated) HK\$'000
	<i>Note</i>		
NON-CURRENT ASSETS			
Prepaid premium on land lease		2,667	2,384
Property, plant and equipment	9	92,336	51,505
Intangible assets		62,642	11,132
Negative goodwill		—	(753)
Total non-current assets		157,645	64,268
CURRENT ASSETS			
Prepaid premium on land lease		87	48
Inventories		6,836	6,238
Trade receivables	10	41,718	36,220
Prepayments, deposits and other receivable		342	13,321
Cash and bank balances		130,715	180,605
		179,698	236,432
CURRENT LIABILITIES			
Trade payables	11	10,216	9,132
Accruals and other payables		22,376	19,926
Tax payable		2,934	2,390
		35,526	31,448
NET CURRENT ASSETS		144,172	204,984
NET ASSETS		301,817	269,252
REPRESENTED BY:			
CAPITAL AND RESERVES			
Share capital		40,000	40,000
Reserves		261,817	229,252
Shareholders' equity		301,817	269,252

Notes:

1. PRINCIPAL ACTIVITIES, ORGANISATION AND BASIS OF PREPARATION

The principal activities of the Group are manufacture, sale, research and development of pharmaceutical products and investment holding.

The Company was incorporated in the Cayman Islands on 16th April, 2003 as an exempted company with limited liability under the Companies Law (2002 Revision) of the Cayman Islands and its shares have been listed on The Stock Exchange of Hong Kong Limited with effect from 24th November, 2003.

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The condensed financial statements have been prepared under the historical cost convention.

2. ADOPTION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS

- A. The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December 2004, except as described below.

The Group has adopted all Hong Kong Financial Reporting Standards ("HKFRSs") (which include all HKASs and Hong Kong (SIC) Interpretations (HK(SIC)-Int) issued by the HKICPA up to 30th June, 2005 pertinent to its operations. The applicable HKFRSs are set out below and the interim financial report for the half-year period ended 30th June, 2004 has been restated in accordance with the relevant requirements except for HKAS 39 which is adopted prospectively as of 1st January, 2005.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings Per Share
HKAS 34	Interim Financial Reporting
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 3	Business Combinations
HK(SIC)-Int 15	Operating Leases – Incentives
HK(SIC)-Int 27	Evaluating the Substance of Transaction Involving the Legal Forms of a Lease

The adoption of the above new HKFRSs has the following impacts on the Group's accounting policies:

- (i) The adoption of HKASs 1, 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 24, 27, 32, 33, 34, 36, 37, 38, 39, HK(SIC)-Ints 15 and 27 do not result in substantial changes to the Group's accounting policies. In summary:
- HKAS 1 affects certain presentation and disclosure of the accounts;
 - HKASs 2, 8, 16 and 27 affect certain disclosure of the accounts; and
 - HKASs 7, 10, 12, 14, 18, 19, 21, 32, 33, 34, 36, 37, 38, 39, HK(SIC)-Ints 15 and 27 do not have any impact as the Group's accounting policies already comply with those standards.
 - HKAS 24 affects the identification of related parties and the disclosure of related party transactions.
- (ii) The adoption of HKAS 17 has resulted in a change in accounting policy relating to leasehold land. Leasehold land and buildings were previously accounted for as finance leases and were stated at cost or valuation less accumulated depreciation. In accordance with HKAS 17, a lease of land and building should be split into a lease of land and a lease of building according to their fair value at inception. A lease of land is an operating lease and a lease of building is a finance lease unless the two elements cannot be allocated reliably, in which case the entire lease is classified as a finance lease. Pursuant to these requirements, the land premium paid for distinguishable leasehold land is accounted for as an operating lease and amortised over its unexpired lease term.
- This change in accounting policy has had no effect on the condensed consolidated income statement and retained profits. The comparatives on the condensed consolidated balance sheet for the year ended 31 December 2004 have been restated to reflect the reclassification of prepaid premium on land lease.
- (iii) The adoption of HKFRS 3 has resulted in a change in the accounting policy for goodwill. Prior to this, negative goodwill was recognised to income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets, except to the extent that such negative goodwill exceeded the aggregate fair value of the acquired identifiable non-monetary asset, it was recognized as income immediately.

The new policy in respect of negative goodwill has been applied prospectively. In accordance with the transitional arrangement under HKFRS 3. As a result, comparative amounts have been restated, the carrying amount of negative goodwill as at 1 January 2005 has been derecognized, with a corresponding adjustment to the opening balance of retained profits.

- B. Pursuant to HKAS 8 (which outlines the disclosure requirement when a change in accounting policy has a material effect on the current and prior periods presented), the Group has retrospectively restated the opening balances of the retained profits as at 1st January, 2005 to take into account the effects of changes in HKFRS 3. The previously reported net profit for the year ended 31st December, 2004 has been adjusted. These effects are summarised as follows:

	Effect of adopting HKFRS 3 HK\$'000
Effects on periods prior to 2005	
Increase in retained profits as at 31st December, 2004 on derecognition of negative goodwill	<u>753</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. TURNOVER AND OTHER REVENUE

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

	For the six months ended 30th June, 2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Turnover		
Sales of pharmaceutical products	<u>110,025</u>	<u>120,692</u>
Other revenue		
Interest income	348	236
Release of negative goodwill	<u>–</u>	<u>81</u>
	<u>348</u>	<u>317</u>
Total revenue	<u>110,373</u>	<u>121,009</u>

5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	For the six months ended 30th June, 2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Research and development costs	106	173
Amortisation of lease premium on land lease	49	31
Depreciation	2,345	1,456
Less: Amount included in research and development cost	<u>–</u>	<u>(44)</u>
	2,345	1,443
Staff costs (including directors' remuneration)		
Salaries and allowance	2,492	2,789
Contributions to retirement scheme	<u>345</u>	<u>339</u>
	2,837	3,128
Less: Amount included in research and development cost	<u>–</u>	<u>(93)</u>
	<u>2,837</u>	<u>3,035</u>

6. INCOME TAX

Income tax consists of:

	For the six months ended 30th June,	
	2005	2004
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
PRC enterprise income tax	5,958	7,255

- (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 16th 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 31st December, 2003.
- (ii) No provision for Hong Kong profits tax has been made as the Group had no assessable profits for the period (2004: Nil).
- (iii) The Group did not have any significant unprovided deferred taxation at 30th June, 2005 (2004: Nil).

7. DIVIDEND

The directors do not recommend the payment of a dividend for the six months ended 30th June, 2005 (2004: Nil).

8. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30th June, 2005 is based on the consolidated profit attributable to shareholders of approximately HK\$31,812,000 (2004: HK\$38,755,000) and the weighted average number of 400,000,000 shares (2004: 400,000,000 shares) in issued during the period.

Diluted earnings per share was not presented because there were no dilutive potential ordinary shares in issue during the six months ended 30th June, 2005 and 2004.

9. CAPITAL EXPENDITURE

During the period, the Group spent approximately HK\$43,176,000 (six months ended 30th June, 2004: HK\$10,483,000) on acquisition of property, plant and equipment.

10. TRADE RECEIVABLES

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

Ageing analysis of trade receivables is as follows:

	30th June, 2005	31st December, 2004
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
0 – 30 days	20,407	18,293
31 – 60 days	21,311	17,927
	41,718	36,220

11. TRADE PAYABLES

Ageing analysis of trade payables is as follows:

	30th June, 2005 (Unaudited) HK\$'000	31st December, 2004 (Unaudited) HK\$'000
0 – 30 days	<u>10,216</u>	<u>9,132</u>

RESULTS HIGHLIGHTS

For the six months ended 30th June, 2005, consolidated turnover of the Group amounted to approximately HK\$110 million, (For the six months ended 30th June, 2004: HK\$121 million). Profit after tax was approximately HK\$32 million, (For the six months ended 30th June, 2004: HK\$39 million). Basic earnings per share was HK7.95 cents (2004: HK9.69 cents).

DIVIDENDS

The Board does not recommend the payment of any interim dividend for the six months ended 30th June, 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

Due to an anticipation of further downward adjustment on the prices of pharmaceutical products by the State Development and Reform Commission in 2005, customers were afraid of potential financial losses in case of such reduction of prices, and many of them lowered their inventory level and cut purchase order. As a result, the sales of some of the pharmaceutical products of the Group decreased.

For the six months ended 30th June, 2005, consolidated turnover of the Group amounted to approximately HK\$110 million, (For the six months ended 30th June, 2004: HK\$121 million). Profit after tax was approximately HK\$32 million, (For the six months ended 30th June, 2004: HK\$39 million). The profit margin was 40.9% (For the six months ended 30th June, 2004: 42.4%). During the first six months of 2005, the sales of large volume parenteral solution amounted approximately to HK\$24.5 million (2004: HK\$22.9 million). In addition, in response to the demand in the market, the production and sale of some new products with higher profit margin were launched. The management of the Company exercised stringent cost control, quality assurance and expense 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.

Prospects

The Group is putting our best effort to reverse the drop in sales in the first half of 2005, and has adopted diversified product development. The new production lines will bring new momentum to the Group and increase sales amount, making the annual sales amount continue to increase. With respect to existing products, in order to release the pressure from price competition, the prices of some of the products will be adjusted to make the products of our group more competitive.

In view of the many unfavourable factors, the Group is launching various new products through active exploration of domestic and foreign markets. It is anticipated that sales amount will rise stably. By strengthening corporate management, the benchmark for product technology efficiency will rise. The Group's main focus in the second half of the year includes:

1. In early 2005 a subsidiary of the Company acquired the formulae of 39 pharmaceutical products developed by a pharmaceutical company, some of which will be put into mass production in the second half of the year. 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.

2. Keep tracking on trend of the pharmaceutical market to make timely adjustments on sales strategies, preparing for the launching of new products and actively seeking a breakthrough in the sales of new products.
3. Continuing strict internal management to enhance quality and efficiency. Through various examinations and quality control, the internal management is to be strengthened. In response to market demand, research and development is to be speeded up. Internal audit is to be strengthened on various expenses, to manage relevant risks.
4. Actively seeking the opportunities of joint venture and cooperation, further exploring the prospects of globalization.

With our experience in the manufacture and sale of pharmaceutical products, our marketing network, and our experienced and professional consultant team, the development of the Group includes:

Production lines

The setting up of six GMP-certified production lines in the new complex has been completed and put into test run in June this year. Mass production will be carried out in the second half of the year which will enhance the overall productivity and total output of the Group.

Acquisition and expansion

In order to bring maximum returns and revenue to shareholders, the Group is in the process of negotiating with two pharmaceutical companies for acquisition. The Group believes that, through horizontal and vertical acquisitions, the Group will become stronger and more competitive. The Group intends to acquire 80 to 100 Chinese acres of land in proximity to our plant to build an extension for the manufacture of raw material for Olive Granules and Anti-diabetes Tea, both are pure Chinese medicine with no side effect and will be solely distributed by the Group.

Sales of products

During the six months ended 30th June, 2005, the Group had 47 products for sale. 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 five major products of the Group in aggregate accounted for 64% of the total turnover.

CAPITAL AND OTHER INFORMATION OF THE GROUP

Financial information

The Group had cash and bank balances totaling approximately HK\$131 million as at 30th June, 2005. As the Group has no outstanding bank loan, there is no gearing ratio (2004: 0%). As at 30 June 2005, the current ratio and quick ratio are 5.06 and 4.87 respectively (as at 31st December, 2004: 7.52 and 7.32 respectively). As at 30th June, 2005, debtors turnover period, inventory turnover period and creditors turnover period were 69 days, 11 days and 30 days respectively (as at 31st December, 2004: 57 days, 10 days and 24 days, respectively). Overall, the Group has a sound financial position to support its future development.

Contingent liabilities

As at 30th June, 2005 the Group and the Company did not have any significant contingent liabilities (2004: Nil).

Interest rate and currency exposure

The Group has no material currency and interest rate exposure.

Employees and remuneration policy

As at 30th June, 2005, the Group had a total of 245 employees (June 2004: 245). 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 period.

CORPORATE GOVERNANCE

Compliance with the Code of Best Practice

The Group continues to improve its corporate governance and believes it is fundamental for the development of the Group as well as for the benefits of the shareholders. Save for Code Provision A2.1 and A4.1 under the Code on Corporate Governance Practices concerning the role of the chairman and chief executive officer should be separate and non-executive director should be appointed for a specific term, the board has complied with the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules and the Code of Best Practice under Appendix 14 in effect prior to 1st January, 2005. Since the Code on Corporate Governance Practices (the "Corporate Governance Code") has been in effect from 1st January, 2005, the corporate governance standard of the Company was further enhanced.

None of the directors is aware of any information that would reasonably indicate that the Company or any of its directors were not in compliance with the Model Code or the Code at any time for the period ended 30th June, 2005. In the opinion of the board, the Company had fully complied with the provisions as provided under the Corporate Governance Code during the interim period. In order to be in compliance with the provisions as provided under the Corporate Governance Code, the Company has established an audit committee and a remuneration committee.

Code Provision A2.1

The Company has no Chief Executive Officer currently. Mr. Zhong Houtai is the chairman and executive director of the Company responsible for the Group's operations in the PRC. The responsibility of that of a chief executive officer is currently taken up by the chairman of the Company. If the Company can identify a suitable person with capable leadership, knowledge on medicines and relevant skills and experiences for the post from within the Group or outside, the Company may consider appointing a chief executive officer. Owing to the business nature and scope of the Company, a suitable person shall have profound understanding and experiences on medicines, therefore there is no definite timetable for the appointment of chief executive officer.

Code Provision A4.1

Although independent non-executive directors of the Company are not appointed for a specific term as required under the Code, they are subject to retirement in rotation at the annual general meeting of the Company according to the bye-laws of the Company.

INDEPENDENT NON EXECUTIVE DIRECTOR

The Board considered that all non-executive directors to be independent in character and judgement. None of the non-executive directors have relationships or circumstances that are likely to effect their professional judgement and each non-executive director has provided confirmation of his independence to the Group. Details of non-executive directors please refer to the 2004 annual report of the Company.

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. Two meetings were held during the current financial year to review the unaudited interim financial statements for the six months ended 30th June, 2005.

REMUNERATION COMMITTEE

The remuneration committee is led by Mr. Li Kai Ming, an independent non-executive director. Member of the remuneration committee includes Mr. Pei Renjiu and Mr. Cheung Chuen, also an independent non-executive director. The remuneration committee has adopted a defined terms of references in consistence with the Corporate Governance Code.

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.

PUBLICATION OF RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE

The unaudited interim financial statements of the Company for the six months ended 30th June, 2005 containing all the information required by paragraphs 46(1) to 46(6) 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 due course.

On behalf of the Board
Zhong Houtai
Chairman

Hong Kong, 13th September, 2005

As this date of announcement, 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. Cheung Chuen, Mr. Pei Renjiu, Mr. Li Kai Ming.

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