



# 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 board of directors (the “Board”) of the Broad Intelligence International Pharmaceutical Holdings Limited (“The Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (“the Group”) for the year ended 31 December 2006 together with comparative figures for the previous year as follows:

These consolidated financial statements have been audited by the Company’s external auditors and reviewed by the Company’s audit committee.

### CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2006

	<i>Note</i>	<b>2006</b> <b>HK\$’000</b>	2005 <i>HK\$’000</i>
Turnover			
Sales of pharmaceutical products	4	<b>342,232</b>	259,832
Cost of sales		<b>(205,251)</b>	(156,120)
Gross profit		<b>136,981</b>	103,712
Other revenue	4	<b>4,580</b>	3,086
Selling and distribution expenses		<b>(21,325)</b>	(9,723)
General and administrative expenses		<b>(19,918)</b>	(17,871)
Operating profits		<b>100,318</b>	79,204
Finance costs	5	<b>–</b>	(2)
Profit before taxation	6	<b>100,318</b>	79,202
Income tax	7	<b>(16,391)</b>	(13,198)
Profit attributable to equity shareholders of the Company	8	<b>83,927</b>	66,004
Dividends	9	<b>–</b>	–
Earnings per share	10		
– Basic		<b>HK20.98 cents</b>	HK16.5 cents
– Diluted		<b>HK20.94 cents</b>	N/A

**CONSOLIDATED BALANCE SHEET***At 31 December 2006*

	<i>Note</i>	<b>2006</b> <b>HK\$'000</b>	<b>2005</b> <b>HK\$'000</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>148,990</b>	93,685
Prepaid lease payments		<b>3,315</b>	3,320
Intangible asset		<b>85,252</b>	71,929
		<hr/>	<hr/>
		<b>237,557</b>	168,934
		<hr/>	<hr/>
<b>CURRENT ASSETS</b>			
Inventories		<b>11,016</b>	7,461
Trade receivables	<i>11</i>	<b>86,176</b>	70,045
Prepayments, deposits and other receivable		<b>467</b>	468
Cash and bank balances		<b>156,039</b>	139,327
		<hr/>	<hr/>
		<b>253,698</b>	217,301
		<hr/>	<hr/>
<b>CURRENT LIABILITIES</b>			
Trade payables	<i>12</i>	<b>22,546</b>	18,158
Accruals and other payables		<b>25,810</b>	23,707
Taxation payable		<b>3,984</b>	4,117
Amount due to a director		<b>2,419</b>	–
		<hr/>	<hr/>
		<b>54,759</b>	45,982
		<hr/>	<hr/>
<b>NET CURRENT ASSETS</b>		<b>198,939</b>	171,319
		<hr/>	<hr/>
<b>NET ASSETS</b>		<b>436,496</b>	340,253
		<hr/>	<hr/>
Represented by:			
<b>SHARE CAPITAL</b>	<i>13</i>	<b>40,000</b>	40,000
<b>RESERVES</b>		<b>396,496</b>	300,253
		<hr/>	<hr/>
<b>SHAREHOLDERS' EQUITY</b>		<b>436,496</b>	340,253
		<hr/>	<hr/>

*Notes:*

## **1. GENERAL**

The Company was incorporated in the Cayman Islands on 16 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 24 November 2003.

The addresses of the registered office and principal place of business of the Company are disclosed in the “Corporate Information” section of the annual report.

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

## **2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)**

In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations (“new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results and financial position of the Group for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards, amendment and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendment or interpretations will have no material impact on the consolidated financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures <sup>1</sup>
HKFRS 7	Financial instruments: Disclosures <sup>1</sup>
HKFRS 8	Operating segments <sup>2</sup>
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>3</sup>
HK(IFRIC) – INT 8	Scope of HKFRS 2 <sup>4</sup>
HK(IFRIC) – INT 9	Reassessment of embedded derivatives <sup>5</sup>
HK(IFRIC) – INT 10	Interim financial reporting and impairment <sup>6</sup>
HK(IFRIC) – INT 11	HKFRS 2 – Group and treasury share transactions <sup>7</sup>
HK(IFRIC) – INT 12	Service concession arrangements <sup>8</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2009.

<sup>3</sup> Effective for annual periods beginning on or after 1 March 2006.

<sup>4</sup> Effective for annual periods beginning on or after 1 May 2006.

<sup>5</sup> Effective for annual periods beginning on or after 1 June 2006.

<sup>6</sup> Effective for annual periods beginning on or after 1 November 2006.

<sup>7</sup> Effective for annual periods beginning on or after 1 March 2007.

<sup>8</sup> Effective for annual periods beginning on or after 1 January 2008.

## **3. SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Companies Ordinance.

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

#### 4. 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:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Turnover		
Sales of pharmaceutical products	<u>342,232</u>	<u>259,832</u>
Other revenue		
Exchange gain	3,406	1,681
Interest income	1,174	693
Reversal of revaluation	–	712
	<u>4,580</u>	<u>3,086</u>
Total revenue	<u><u>346,812</u></u>	<u><u>262,918</u></u>

#### 5. FINANCE COSTS

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Bank charges	<u>–</u>	<u>2</u>

#### 6. PROFIT BEFORE TAXATION

The profit before taxation are stated after charging the following:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Amortisation of intangible assets	11,328	5,328
Amortisation of prepaid lease payments	144	183
Auditors' remuneration	570	590
Cost of inventories	205,251	156,120
Depreciation	7,638	6,382
Research and development costs	101	121
Staff costs (including directors' remuneration)		
Salaries and allowance	5,189	4,957
Contributions to retirement scheme	807	737
	<u>5,996</u>	<u>5,694</u>
Operating lease payment in respect of premises	<u><u>590</u></u>	<u><u>329</u></u>

*Notes:* Cost of inventories includes HK\$6,139,000 (2005: HK\$8,389,000) relating to staff costs and depreciation, which amount is also included in the respective total amounts disclosed separately above.

## 7. INCOME TAX

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Current tax – PRC enterprise income tax		
Provision for the year	<u><b>16,391</b></u>	<u>13,198</u>

- (i) Fujian Nanshaolin Pharmaceutical Co., Ltd. (formerly known as Fuqing Pharmaceutical Company Ltd), a wholly foreign owned enterprise, was subject to PRC enterprise income tax at a rate of 15% applicable to the company on the assessable profits for the year.
- (ii) No provision for Hong Kong profits tax has been made as the Group had no assessable profits for the year (2005: Nil).
- (iii) The Group had no significant unprovided deferred taxation arising during the year or at 31 December 2006 (2005: Nil).

Reconciliation between tax expense and accounting profit at applicable tax rates:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Profit before taxation	<u><b>100,318</b></u>	<u>79,202</u>
Notional tax on profit before tax, calculated at the rates, applicable to profits in the countries concerned	<b>14,930</b>	11,784
Tax effect of non-taxable income	<b>(243)</b>	(85)
Tax effect of unrecognised tax losses	<b>821</b>	675
Temporary difference	<u><b>883</b></u>	<u>824</u>
Actual tax expense	<u><b>16,391</b></u>	<u>13,198</u>

## 8. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to shareholders of the Company includes a loss of approximately HK\$4,680,000 (2005: a loss of HK\$3,852,000) which has been dealt with in the financial statements of the Company.

## 9. DIVIDENDS

Dividends payable to equity shareholders of the Company attributable to the year:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Final dividend proposal after the balance sheet date of HK3.8 cents per share (2005: Nil)	<u><b>16,720</b></u>	<u>–</u>

The final dividend proposal after the balance sheet date has not been recognised as a liability at the balance sheet date.

## 10. EARNINGS PER SHARE

### (a) Basic 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\$83,927,000 (2005: HK\$66,004,000) and the weighted-average number of 400,000,000 (2005: 400,000,000) ordinary shares in issue during the year.

### (b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK\$83,927,000 and the weighted average number of ordinary shares of 400,768,898 shares, calculated as follow:

*Weighted average number of ordinary shares (diluted)*

	<b>2006</b> <b>'000</b>	2005 <b>'000</b>
Weighted average number of ordinary shares at 31 December	<b>400,000</b>	400,000
Effect of deemed issued of shares under the Company's share option scheme for nil consideration	<b>769</b>	–
	<hr/>	<hr/>
Weighted average number of ordinary shares (diluted) at 31 December	<b>400,769</b>	400,000
	<hr/> <hr/>	<hr/> <hr/>

Diluted earnings per share is not presented for 2005 as there were no dilutive potential ordinary shares during the year ended 31 December 2005.

## 11. TRADE RECEIVABLES

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

The ageing analysis of trade receivables is as follows:

	<b>The Group</b> <b>2006</b> <b>HK\$'000</b>	2005 <b>HK\$'000</b>
0 to 30 days	<b>47,880</b>	35,923
31 to 60 days	<b>31,748</b>	34,122
61 to 90 days	<b>6,548</b>	–
	<hr/>	<hr/>
	<b>86,176</b>	70,045
	<hr/> <hr/>	<hr/> <hr/>

## 12. TRADE PAYABLES

The ageing analysis of accounts payables is as follows:

	<b>The Group</b> <b>2006</b> <b>HK\$'000</b>	2005 <b>HK\$'000</b>
0 to 30 days	<b>22,492</b>	18,158
31 to 60 days	<b>41</b>	–
61 to 90 days	<b>13</b>	–
	<hr/>	<hr/>
	<b>22,546</b>	18,158
	<hr/> <hr/>	<hr/> <hr/>

### 13. SHARE CAPITAL

#### *The Company*

	Number of shares		Amount	
	2006 '000	2005 '000	2006 HK\$'000	2005 HK\$'000
Ordinary shares of HK\$0.1 each				
Authorised	<u>2,000,000</u>	<u>2,000,000</u>	<u>200,000</u>	<u>200,000</u>
Issued and fully paid	<u>400,000</u>	<u>400,000</u>	<u>40,000</u>	<u>40,000</u>

### 14. 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 presented here.

## CHAIRMAN'S STATEMENT

I am pleased to present to our shareholders the annual report of Broad Intelligence International Pharmaceutical Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2006.

### Business Review

The Group had continued to introduce high quality products to the market. In 2006, we launched 11 healthcare pharmaceuticals (2005: 5) with turnover of approximately HK\$56 million, accounted for 16% of the total turnover of the Group. In 2006, we launched 62 parenteral solution products (2005: 55) with turnover of approximately HK\$286 million, up 20% as compared to HK\$239 million in 2005.

### Products

The Group currently holds permits for over 100 pharmaceutical products. We anticipate that there will be 3 to 4 permits of pharmaceutical products granted to us each year.

### Target Customers

Healthcare products are popular nowadays. Therefore, the Group will launch new products to meet the demand in this market. Points-of-sales of the Group's healthcare products include drug stores and supermarkets. While customers who are sick may take them for curing need, those who do not have any illness may also take them for healthcare purpose. By extending its existing market with the healthcare products, the Group will move forward to a new horizon in terms of product sales.

### Results

Building on the Group's great efforts and solid foundation, the Group recorded a consolidated turnover of approximately HK\$342 million for the year ended 31 December 2006, representing an increase of 32% when compared with the HK\$260 million of last year. Profit after tax was approximately HK\$84 million, representing an increase of 27% over last year. Gross profit margin was approximately 40% (2005: 40%). Sales of healthcare products was approximately HK\$56 million, accounted for approximately 16% of the Group's total turnover. Sales of parenteral solution products for 2006 was approximately HK\$286 million, representing an increase of 20% compared to HK\$239 million of last year.

## **Dividends and Dividend Policy**

To reward our shareholders for their support to the Group over the years, the board of directors proposed a dividend at a payout ratio of 20% to be paid out of the 2006 after tax profit.

## **Outlook and Prospect**

### ***Sales of Pharmaceuticals***

#### *Healthcare pharmaceutical products*

Sales of healthcare pharmaceutical products in the first half of 2006 was approximately HK\$22 million and amounted to HK\$56 million for the full year. It showed that the products of the Group were well received by the market, and we anticipate that our sales will keep growing steadily in the future. The production lines of the Group are capable to meet the demand for the coming few years.

#### *Tenders of pharmaceutical rights*

In 2007, Guangdong, Fujian and Guizhou have introduced unified tenders of pharmaceutical distribution rights at provincial level. The Group enjoyed fruitful results in pharmaceutical tenders in these provinces. It obtained distribution rights for approximately 80, 70 and 30 pharmaceutical products in Fujian, Guizhou and Guangdong respectively. The Group expects a record-breaking year of 2007 in terms of parenteral solution products sales.

#### *Expansion of Production Facilities*

The Group has acquired a parcel of land with an area of more than 26,000 square meters (40 mous) adjacent to its existing production facilities for the construction of raw materials production facilities, which will be used for the extraction of pure Chinese herbal essence for the Group's side effect-free, worldwide exclusive proprietary products “護肝胃酒靈 (Olive Granules)” and Anti-diabetes Tea. Construction of the production facility is expected to be completed in early 2008 and to commence operation in mid 2008.

While the Group is still using glass bottles for large volume parenteral solution, it is becoming more popular in the market to use containers made of plastic materials. The Group is thus considering a shift to using plastic container. It is contemplating of setting up a new production line for manufacture of plastic packaging materials supplying to the Group in 2008 to 2009 so as to ensure the quality control and cost saving. It may also consider to sell packaging materials to external customers.

#### *Expansion into Overseas Markets*

In November 2006, permits of 2 parenteral solutions of the Group had been duly granted by the Health Department of Hong Kong upon submission to strict review and approval procedures. Other applications for sales of products in Hong Kong are being processed.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Results

For the year ended 31 December 2006, the Group's consolidated turnover was HK\$342 million, up 32% from HK\$260 million of last year. Profit after tax was HK\$84 million, representing an increase of 27% over last year. Gross profit margin was approximately 40% (2005: 40%). The healthcare products generated a sales of approximately HK\$56 million, accounted for 16% of the Group's total sales. Sales of parenteral solution amounted to approximately HK\$286 million, up about 20% as compared to HK\$239 million in 2005. Basic earnings per share of the Group for 2006 were HK\$20.98 cents (2005: HK\$16.5 cents).

### Sale of Products

As at 31 December 2006, the Group offered 73 types of products in different package, 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.

	Major Districts in the PRC									
	For the Year ended 31 December									
	2002		2003		2004		2005		2006	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Eastern region (Shanghai, Zhejiang province, Jiangxi province and Fujian province)	79,675	55	119,756	59	134,153	57	158,081	61	225,172	66
Southwestern Region (Yunnan Province, Guizhou Province and Chongqing)	23,450	16	34,223	17	37,084	16	33,646	13	47,694	14
Southern Region (Guangdong Province and Guangxi Autonomous Region)	28,055	19	31,533	15	44,094	19	49,159	19	57,379	16
Northern Region (Beijing and Henan Province)	9,384	6	12,671	6	14,761	6	14,340	5	5,665	2
Central Region (Anhui Province and Hunan Province)	6,179	4	5,337	3	3,805	2	4,606	2	6,322	2
Total	<u>146,743</u>	<u>100</u>	<u>203,520</u>	<u>100</u>	<u>233,897</u>	<u>100</u>	<u>259,832</u>	<u>100</u>	<u>342,232</u>	<u>100</u>

	Type of Customers									
	For the Year ended 31 December									
	2002		2003		2004		2005		2006	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Distributors	134,638	92	178,164	88	185,896	79	197,246	76	234,941	69
Hospitals and Clinics	12,105	8	25,356	12	48,001	21	62,586	24	107,291	31
Total	<u>146,743</u>	<u>100</u>	<u>203,520</u>	<u>100</u>	<u>233,897</u>	<u>100</u>	<u>259,832</u>	<u>100</u>	<u>342,232</u>	<u>100</u>

## Financial Information

The Group had cash and bank balances totalling HK\$156 million as at 31 December 2006. As the Group had no outstanding bank loan, the gearing ratio was zero (2005: zero). The current and quick ratios in 2006 were 4.63 and 4.43 respectively (2005: 4.73 and 4.56). As at 31 December 2006, the debtors turnover, inventory turnover and creditors turnover were 79 days, 12 days and 42 days respectively (2005: 98 days, 17 days and 42 days respectively). Overall, the Group has a sound financial position to support its future development.

## Capital Expenditure

During the year ended 31 December 2006, the Group acquired new plant equipment and facilities totalling HK\$59 million, which was financed by internal cash resources.

## Contingent Liabilities

As at 31 December 2006, the Group and the Company did not have any significant contingent liability (2005: Nil).

## Interest Rate and Currency Exposure

The Group has no material currency and interest rate exposure.

## Changes in the Organisation of the Group

Since its listing and up to 31 December 2006, the Group did not acquire or dispose of any subsidiary.

## 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 year ended 31 December 2006 and the audited financial statements for the year ended 31 December 2006.

## **Employees and Remuneration Policy**

During the year, the Group's labour force in respect of packaging was reduced due to the introduction of automatic equipments. As at 31 December 2006, the Group had a total of 127 employees (December 2005: 260). The Group regularly reviews the 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 2006 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 for the following deviations:

- Code provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Zhong Houtai is the chairman and Executive Director of the Company responsible for the Group's operations in the PRC. The Board believed that the vesting of the two roles to Mr. Zhong provides the Group with stable and consistent leadership and allows for more effective planning and implementation of the long term business strategies. 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.
- Code provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. Independent non-executive directors of the Company are not appointed for a specific term 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 the date of this announcement, the executive directors of the Company are Mr. Zhong Houtai, Mr. Zhong Houyao, Mr. Chong Hoi Fung, Mr. Sun Daquan, and Mr. Cheung Chuen, Mr. Pei Renjiu and Mr. Li Kai Ming are the independent non-executive directors of the Company.*

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

23 April 2007

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