

# *R*eport of the Directors

(Amounts expressed in Hong Kong dollars)

The directors are pleased to submit their report together with the audited financial statements of China Apollo Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for the year ended 31st December, 2000.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in the development, manufacture and sale of tonic and health products in the People’s Republic of China (the “PRC”).

The Group’s turnover by product categories for the year ended 31st December, 2000 is analysed as follows:

	2000	1999
	\$’000	\$’000
Health products	133,313	121,004
Health drinks	17,326	29,448
Pharmaceutical product	6,840	5,541
Others	396	195
	<u>157,875</u>	<u>156,188</u>

Contributions to trading results by product categories have not been presented as they are generally in proportion to the distribution of turnover as set out above.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2000, the five largest customers of the Group accounted for approximately 21% (1999: 45%) of the Group’s turnover, with the largest customer accounted for approximately 8% (1999: 18%). The five largest suppliers accounted for approximately 45% (1999: 47%) of the Group’s total purchases, with the largest supplier accounted for approximately 16% (1999: 14%).

As at 31st December, 2000, none of the directors, their associates, or any shareholders (which to the knowledge of the directors owned more than 5% of the Company’s share capital) had a beneficial interest in the Group’s five largest customers and five largest suppliers.

## DONATIONS

No donation was made during the year ended 31st December, 2000.

## RESULTS AND APPROPRIATIONS

The results for the year ended 31st December, 2000 are set out on page 26 of this report.

The directors do not recommend the payment of a final dividend, and recommend that the accumulated losses of approximately \$273,735,000 as at 31st December, 2000 be carried forward.

## FINANCIAL SUMMARY

A financial summary of the Group for the five years ended 31st December, 2000 is set out on page 60 of this report.

## RESERVES

Details of the movements in reserves during the year are set out in Note 25 to the financial statements.

## FIXED ASSETS

Details of the movements in fixed assets are set out in Note 11 to the financial statements.

## SUBSIDIARIES AND ASSOCIATES

Particulars of the Company's subsidiaries and associates are set out in Notes 14 and 15 respectively to the financial statements.

## SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in share capital and share options are set out in Notes 23 and 24 respectively to the financial statements.

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## **PURCHASE, SALE OR REDEMPTION OF SHARES**

During the year ended 31st December, 2000, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares.

## **PRE-EMPTIVE RIGHTS**

There is no provision for pre-emptive rights under the Company's bye-laws and the laws in Bermuda.

## **DIRECTORS AND DIRECTORS' SERVICE CONTRACTS**

The directors who held office during the year and up to the date of this report are:

### **Executive directors**

Mr. LOK Fai, *Chairman and Managing Director*

Mr. TSEUNG Wai Lok, *Deputy General Manager*

Mr. ZHANG Tie Cheng, *Deputy General Manager*

Mr. LAU Chan Wing, Raymond, *Finance Director and Company Secretary*

Mr. PAN Hao Hao, *Manager of Marketing Management Department (appointed on 20th February, 2001)*

### **Non-executive directors**

Mr. GOH Gen Cheung

Mr. WU King Cheung

In accordance with the bye-laws of the Company, Mr. Zhang Tie Cheng and Mr. Goh Gen Cheung retire by rotation and, being eligible, offer themselves for re-election.

Mr. Lok Fai, Mr. Tseung Wai Lok, Mr. Zhang Tie Cheng and Mr. Lau Chan Wing, Raymond have service contracts with the Company, which are terminable by either party giving not less than three months' notice in writing. Except the foregoing, none of the directors has an unexpired service contract with the Company which is not terminable by the Company within one year without payment of compensation other than statutory compensation.

## DIRECTORS' INTERESTS IN SHARES

As at 31st December, 2000, the directors of the Company had the following beneficial interests in the shares of \$0.10 each in the capital of the Company (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as recorded in the Register of Directors' Interests required to be kept by the Company pursuant to Section 29 of the SDI Ordinance:

<u>Name</u>	<u>Personal interest</u>	<u>Corporate interest</u>	<u>Total</u>	<u>Percentage of total shares outstanding</u>
Mr. Lok Fai	—	600,000,000*	600,000,000	73.6%

\* As at 31st December, 2000, these shares were held by Sunny Fortune Limited which is beneficially owned by Mr. Lok Fai. The interests of this director in the issued shares of the Company are, accordingly, corporate interest in the Company as defined in Practice Note 5 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Save as disclosed above, the Company had no notice of any interest required to be recorded under Section 29 of the SDI Ordinance as at 31st December, 2000.

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## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

The Company has a share option scheme under which it may grant options to employees (including executive directors) of the Group to subscribe for shares in the Company. Details of the scheme are set out in Note 24 to the financial statements. The share options held by and granted to the Company's directors during the year are as follows:

Name of directors	Subscription price per share	Number of share options			End of year
		Beginning of year	Granted during the year	Lapsed during the year	
Mr. Tseung Wai Lok	\$1.44	1,000,000	—	—	1,000,000
Mr. Zhang Tie Cheng	\$1.44	1,300,000	—	—	1,300,000
Mr. Lau Chan Wing, Raymond	\$1.44	1,200,000	—	—	1,200,000

Except for the above, at no time during the year was the Company, its subsidiaries or holding company a party to any arrangements to enable any of the Company's directors or members of its management to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

## DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in the preceding paragraphs, no contract, commitment or agreement of significance in relation to the Group's business, to which the Company, its subsidiaries or holding company was a party and in which any of the Company's directors or members of its management had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

## SUBSTANTIAL SHAREHOLDER

As at 31st December, 2000, the following entity (not being a director or chief executive of the Company) had registered an interest in 10% or more of the issued share capital of the Company:

<u>Name</u>	<u>Number of issued shares</u>	<u>Percentage of shareholding</u>
Sunny Fortune Limited	600,000,000	73.6%

Save as disclosed above, the Company had no notice of any interest required to be recorded under Section 16(1) of the SDI Ordinance as at 31st December, 2000.

## AUDITORS

The financial statements have been audited by Arthur Andersen & Co. A resolution for their reappointment as auditors for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board of Directors

**Lok Fai**

*Chairman*

Hong Kong

19th April, 2001