1. ORGANISATION AND OPERATIONS

China Apollo Holdings Limited (the "Company") was incorporated in Bermuda on 18 October 1995 as an exempted company under the Companies Act 1981 of Bermuda (as amended) with its shares listed on The Stock Exchange of Hong Kong Limited since 19 December 1995.

The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in the development, manufacture and sale of tonic and health products in the People's Republic of China (the "PRC").

The directors of the Company consider Sunny Fortune Limited, a company incorporated in the British Virgin Islands, to be the ultimate holding company.

2. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of presentation

The consolidated financial statements include the financial statements of the Company and its subsidiaries. Significant intra-group transactions and balances have been eliminated on consolidation.

The financial statements are prepared under the historical cost convention, and in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants and the accounting principles generally accepted in Hong Kong ("HK GAAP"), the disclosure requirements of the Hong Kong Companies Ordinance, and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. This basis of accounting differs from that used in the financial statements of group companies not incorporated in Hong Kong, which are prepared in accordance with the accounting standards of their respective countries. Adjustments have been made to these financial statements for compliance with HK GAAP.

(b) Turnover

Turnover represents gross invoiced sales, net of discounts and returns.

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(c) Revenue recognition

Provided it is probable that the economic benefits associated with a transaction will flow to the Group and the revenue and costs, if applicable, can be measured reliably, turnover and other revenue are recognised on the following bases:

(i) Sale of goods

Revenue from sale of goods is recognised when the significant risks and rewards of ownership of goods has been transferred to customers.

(ii) Interest income

Interest income from bank deposits is recognised on a time proportion basis on the principal outstanding and at the rate applicable. Interest income from investment in securities is accounted for to the extent of interest received or receivable.

(iii) Dividend income

Dividend income is recognised when the right to receive payment is established.

(iv) Rental income

Rental income under operating leases is recognised on a straight-line basis over the period of the relevant leases.

(d) Warranty

The Group provides free replacement for expired products. Provision for warranty is accrued when the related sales are recognised. The provision is based on the life span of the Group's products and the estimated consumption rate of the ultimate users as estimated by the directors based on historical experience and industry information. The assumptions used to estimate warranty accruals are re-evaluated periodically in light of actual experience.

(e) Retirement benefits

Contributions to retirement benefit schemes are charged to the consolidated income statement as incurred.

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(f) Operating leases

Leases where substantially all the rewards and risks of ownership remain with the leasing company are accounted for as operating leases. Rental income and payments under operating leases are recognised in the consolidated income statement on a straight-line basis over the period of the relevant leases.

(g) Taxation

Companies within the Group provide for taxation on the basis of their profits for financial reporting purpose, adjusted for income and expense items which are not assessable or deductible for income tax purposes.

Deferred taxation is provided under the liability method, at the current tax rate, in respect of significant timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, except when it is considered that no liability will arise in the foreseeable future. A deferred tax asset is not recognised unless the related benefits are expected to crystallise in the foreseeable future.

(h) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the consolidated income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed assets, the expenditure is capitalised as an additional cost of the fixed asset.

Depreciation is calculated on the straight-line basis at annual rates estimated to write off the cost, after deducting the estimated residual value, of each asset over its expected useful life. The annual rates are as follows:

Land use rights and buildings	4.5-5%
Plant and machinery	9-10%
Equipment	18-20%
Motor vehicles	18-20%
Others	18-20%

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(h) Fixed assets and depreciation *(Cont'd)*

When assets are sold or retired, their cost and accumulated depreciation and amortisation are eliminated from the accounts and any gain or loss resulting from their disposals is included in the consolidated income statement.

(i) Construction-in-progress

Construction-in-progress represents factory buildings, staff quarters and other fixed assets under construction and is stated at cost. This includes costs of construction as well as interest charges arising from borrowings used to finance the fixed assets during the construction, installation and testing periods. When the assets concerned are brought into use, the costs are transferred to fixed assets and depreciated in accordance with the policy as stated above.

(j) Subsidiaries

A company is a subsidiary company if more than 50% of the issued voting capital is held long-term, directly or indirectly. In the Company's balance sheet, investment in subsidiaries is carried at cost less provision for impairment in value where considered necessary by the directors. The results of the subsidiaries are included in the Company's income statement to the extent of dividends declared by the subsidiaries.

(k) Associates

An associate is an enterprise in which the Group has significant influence, but not control or joint control, and thereby has the ability to participate in its financial and operating policy decisions.

In the consolidated financial statements, investment in associate is accounted for under the equity method of accounting, whereby the investment is initially recorded at cost and the carrying amount is adjusted to recognise the Group's share of the post-acquisition profits or losses of the associate, distributions received from the associate and other necessary alterations in the Group's proportionate interest in the associate arising from changes in the equity of the associate that have not been included in the consolidated income statement.

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(l) Pre-operating expenditures

Prior to 1999, expenditures incurred prior to commencement of business operations of individual group companies were deferred and amortised on a straight-line basis over a period of five years starting from the commencement of the respective business operations.

Starting from 1999, the Group charges all the pre-operating expenditures to the consolidated income statement as incurred. Please refer to Note 16 for the effect of the change in accounting policy.

(m) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to prepare for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are recognised as an expense in the period in which they are incurred.

(n) Research and development costs

Research costs are written off as incurred. Development costs incurred on specific projects are carried forward when recoverability can be foreseen with reasonable assurance, and are amortised based on the expected sales amount from such projects. All other development costs are written off as incurred.

(o) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is based on the weighted average cost formula and comprises all cost of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(p) Investments in securities

Securities that are held for the purpose of generating a profit from short-term fluctuations in price or dealer's margin are classified as trading securities and are included in the balance sheet at their fair values. Any changes in the fair values of trading securities are recognised in the consolidated income statement when they arise.

Upon disposal of the trading securities, any profit and loss is accounted for in the consolidated income statement.

(q) Investments held for disposal

Investments held for disposal are stated at cost less provision for impairment in value. Upon disposal, any profit and loss is accounted for in the consolidated income statement.

(r) Foreign currency translation

Individual companies within the Group maintain their books and records in the primary currencies of their respective operations ("functional currencies"). In the accounts of the individual companies, transactions in other currencies during the year are translated into the respective functional currencies at the applicable rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies are translated into the respective functional currencies at the applicable rates of exchange in effect at the balance sheet date; non-monetary assets and liabilities denominated in other currencies are translated at historical rates. The exchange differences arising from changes in exchange rates for monetary assets and liabilities denominated in other currencies subsequent to the transaction dates are dealt with in the income statement of the individual companies.

The Group prepares its consolidated financial statements in Hong Kong dollars. For the purpose of consolidation, the financial statements of those subsidiaries with functional currencies other than Hong Kong dollars are translated into Hong Kong dollars using the closing rate method, whereby the balance sheet items and the income statement items are translated at the applicable exchange rates in effect at the balance sheet date. Exchange differences arising from such translation are dealt with as movements of reserve.

3. TURNOVER

Turnover by product categories is 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
	157,875	156,188

All turnover was derived in the PRC.

4. OTHER OPERATING EXPENSES

	2000	1999
	$'000	$'000
Provision for investments held for disposal	**6,459**	4,694
Provision for unrecoverable prepayments	**13,955**	—
Provision for impairment in value of investment in an unconsolidated subsidiary	**3,033**	—
Loss on disposal of fixed assets	**12,750**	4,199
Others	**—**	81
	36,197	8,974

5. LOSS BEFORE MINORITY INTERESTS

Loss before minority interests is determined after crediting and charging the following:

	2000	1999
	$'000	*$'000*
Crediting:		
Rental income	**7,512**	8,376
Dividend income on investments in securities	**158**	191
Interest income		
— bank deposits	**3,487**	6,752
— others	**1,400**	—
Gain on disposal of investments	**2,263**	—
Exchange gain	**—**	13
Write back of provision for warranty	**6,690**	4,782
Charging:		
Interest expense	**3,186**	2,988
Exchange loss	**335**	—
Written off of obsolete inventories	**6,006**	—
Depreciation on owned assets	**25,645**	21,124
Research and development costs included under administrative expenses	**3,391**	—
Amortisation of other non-current assets	**191**	68
Provision for doubtful receivables	**9,129**	—
Operating lease rentals in respect of land and buildings	**3,612**	3,974
Provision for staff welfare and bonus	**2,399**	1,888
Auditors' remuneration	**1,200**	1,200

6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

a. Details of directors' emoluments are as follows:

	2000	1999
	$'000	$'000
Fees for executive directors	**—**	—
Fees for non-executive directors	**400**	400
Other emoluments for executive directors		
— Basic salaries and allowances	**4,508**	4,308
— Bonus	**282**	322
— Others	**—**	—
Other emoluments for non-executive directors	**—**	—
	5,190	5,030

None of the directors waived any emoluments during the year.

b. Analysis of directors' emoluments by number of directors and emolument ranges is as follows:

	2000	1999
Executive directors		
— Nil to $1,000,000	**2**	2
— $1,000,001 to $1,500,000	**1**	1
— $1,500,001 to $2,000,000	**—**	—
— $2,000,001 to $2,500,000	**1**	—
— $2,500,001 to $3,000,000	**—**	1
	4	4
Non-executive directors		
— Nil to $1,000,000	**2**	2

6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS *(Cont'd)*

c. Details of emoluments paid to the five highest paid individuals (including directors and employees) are as follows:

	2000	1999
	$'000	*$'000*
Basic salaries and allowances	**4,981**	4,787
Bonus	**292**	335
	5,273	5,122

	2000	1999
Number of directors	**3**	3
Number of employees	**2**	2
	5	5

During the year, no emolument was paid to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office.

d. Analysis of emoluments paid to the five highest paid individuals (including directors and employees) by number of individuals and emolument ranges is as follows:

	2000	1999
Nil to $1,000,000	**3**	3
$1,000,001 to $1,500,000	**1**	1
$1,500,001 to $2,000,000	**—**	—
$2,000,001 to $2,500,000	**1**	—
$2,500,001 to $3,000,000	**—**	1
	5	5

7. TAXATION

The Company is exempted from taxation in Bermuda until 28 March 2016.

Hong Kong profits tax is provided at the rate of 16% (1999: 16%) on the estimated assessable profit arising in or derived from Hong Kong. There is no Hong Kong profits tax liabilities for the year ended 31 December 2000 (1999: Nil) as the Group did not earn any income subject to Hong Kong profits tax.

The two principal subsidiaries of the Company are Guangdong Apollo (Group) Co., Ltd. ("Guangdong Apollo") and Guangdong Apollo Group Li Cheng Pharmaceutical Factory ("Li Cheng"). Guangdong Apollo is a Sino-foreign equity joint venture enterprise and is subject to PRC enterprise income tax at a reduced rate of 15%. Li Cheng is a collective enterprise established in the PRC and is subject to PRC enterprise income tax at a rate of 33%.

As Guangdong Apollo and Li Cheng did not earn any income subject to PRC enterprise income tax for the year ended 31 December 2000, no PRC enterprise income tax has been provided (1999: Nil).

8. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The consolidated loss attributable to shareholders for the year ended 31 December 2000 included a loss of approximately $117,228,000 (1999: loss of approximately $31,943,000) dealt with in the financial statements of the Company.

9. DIVIDENDS

The directors do not recommend the payment of a dividend for the year ended 31 December 2000 (1999: nil).

10. LOSS PER SHARE

The calculation of basic loss per share for the year ended 31 December 2000 is based on the consolidated loss attributable to shareholders of approximately $117,224,000 (1999: loss of approximately $24,207,000) and the 815,100,000 shares (1999: 815,100,000 shares) in issue during the year.

Diluted loss per share is not presented as there is no dilution effect on the potential ordinary shares arising from the exercise of the outstanding share options because the exercise prices of the share options are greater than average market prices.

11. FIXED ASSETS

	Consolidated						
	2000						1999
	Land use rights and buildings	Plant and machinery	Equipment	Motor vehicles	Others	Total	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cost							
Beginning of year	325,181	50,278	18,298	28,645	7,121	429,523	429,103
Translation difference	1,368	212	75	111	31	1,797	1,072
Additions	9,884	1,905	674	2,348	123	14,934	4,868
Transfer from construction- in- progress (see Note 12)	1,727	—	—	—	—	1,727	1,881
Disposals	(21,173)	(3,161)	(1,871)	(9,863)	(371)	(36,439)	(7,401)
End of year	316,987	49,234	17,176	21,241	6,904	411,542	429,523
Accumulated depreciation							
Beginning of year	60,937	19,747	13,281	24,359	6,003	124,327	106,142
Translation difference	257	83	53	95	26	514	263
Charge for the year	17,295	4,515	1,341	2,045	449	25,645	21,124
Disposals	(434)	(41)	(1,533)	(8,574)	(359)	(10,941)	(3,202)
End of year	78,055	24,304	13,142	17,925	6,119	139,545	124,327
Net book value							
End of year	238,932	24,930	4,034	3,316	785	271,997	305,196
Beginning of year	264,244	30,531	5,017	4,286	1,118	305,196	322,961

11. FIXED ASSETS *(Cont'd)*

The carrying amount of land use rights and buildings is analysed as follows:

	Consolidated	
	2000	1999
	$'000	$'000
Held in Hong Kong	**—**	—
Held outside Hong Kong on long-term lease (over 50 years)	**238,932**	264,244
	238,932	264,244

Buildings with carrying amount of approximately $49,236,000 (1999: $59,616,000) are pledged as collateral for banking facilities (see Note 28).

The fair value of land use rights and buildings, at directors' valuation, as at 31 December 2000 amounted to approximately $380,000,000 (1999: $400,000,000).

12. CONSTRUCTION-IN-PROGRESS

	Consolidated	
	2000	1999
	$'000	$'000
Beginning of year	**3,774**	4,934
Additions	**4,521**	721
Transfer to fixed assets (see Note 11)	**(1,727)**	(1,881)
End of year	**6,568**	3,774

31 December 2000
(Amounts expressed in Hong Kong dollars unless otherwise stated)

13. PREPAYMENTS FOR FIXED ASSETS

	Consolidated	
	2000	1999
	$'000	$'000
Machinery	**7,543**	7,433
Land use rights	**12,888**	10,865
Buildings	**1,087**	1,087
Less: Provision for unrecoverable prepayments	**(15,042)**	(1,087)
	6,476	18,298

All the land use rights and buildings are located in the PRC. The Group is in the process of obtaining the title deeds of the land use rights.

14. INVESTMENTS IN SUBSIDIARIES

	Consolidated		Company	
	2000	1999	**2000**	1999
	$'000	$'000	**$'000**	$'000
Investments in unlisted shares, at cost	**5,335**	—	**404,630**	404,630
Less: Provision for impairment in value	**(3,960)**	—	**(314,400)**	(199,000)
	1,375	—	**90,230**	205,630
Due from subsidiaries	**—**	—	**245,153**	246,967
	1,375	—	**335,383**	452,597

Balances with subsidiaries are unsecured, interest free and have no fixed terms of payment.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

14. INVESTMENTS IN SUBSIDIARIES *(Cont'd)*

The following is a list of the principal subsidiaries:

Name	Place of incorporation and principal country of operation	Percentage of equity interest held	Particulars of issued share capital	Principal activities
Consolidated Subsidiaries				
Directly held				
China Apollo (BVI) Limited	British Virgin Islands	100%	US$1	Investment holding
Indirectly held				
China Apollo Enterprises (Hong Kong) Limited	Hong Kong	100%	HK$30,000 (i)	Investment holding
Rainbow Profits Limited	British Virgin Islands	100%	US$10	Investment holding
China Apollo Advertising Limited	Hong Kong	100%	HK$2	Dormant
China Apollo International Trading Limited	Hong Kong	100%	HK$2	Dormant
Guangdong Apollo (Group) Co., Ltd.	PRC	95%	HK$187,314,000	Manufacture and sale of health products in the PRC
Guangdong Apollo Group Li Cheng Pharmaceutical Factory	PRC	100%	RMB15,300,000	Manufacture and sale of pharmaceutical products in the PRC
China Apollo Enterprises (Macau) Limited	Macau	100%	PTC$10,000	Dormant
China Apollo Enterprises (Singapore) Private Limited	Singapore	100%	S$2	Dormant

14. INVESTMENTS IN SUBSIDIARIES *(Cont'd)*

Name	Place of incorporation and principal country of operation	Percentage of equity interest held	Particulars of issued share capital	Principal activities
Unconsolidated Subsidiary				
Indirectly held				
Shanghai Apollo-Fudan High-Tech. Industry Co. Ltd. ("Apollo Fudan") (ii)	PRC	70%	RMB3,000,000	Manufacture and sale of pyruvat calcium series products and other chemical intermediates

i. Including 1,000 non-voting deferred shares of $10 each. These shares have no voting rights and are not entitled to dividends or any distribution upon winding up unless a sum of $500,000,000,000 has first been distributed to the holders of ordinary shares.

ii. Pursuant to an equity transfer agreement entered in January 2000, Guangdong Apollo's equity interest in Apollo Fudan was increased from 50% to 70%. In the opinion of the directors, the operating results and financial position of Apollo Fudan are not significant to the Group as a whole, therefore Apollo Fudan is excluded from consolidation. The consolidated income statement of the Group accounted for the results of Apollo Fudan to the extent of dividend received and receivable. Investment in Apollo Fudan is carried at cost less provision for impairment in value.

15. INVESTMENTS IN ASSOCIATES

	Consolidated	
	2000	1999
	$'000	$'000
Investments in unlisted shares, at cost	**9,678**	4,683
Less: Provision for impairment in value	—	(927)
	9,678	3,756

Details of the associates are as follows:

Name	Place of incorporation	Percentage of equity interest held indirectly	Issued capital	Principal activities
Data Logistics Limited	British Virgin Islands	45%	USD100	Investment holding
Beijing Metrolink Embryo Biotech Company Limited	PRC	40%	RMB10,000,000	Biotech research and development of related technical know-how

16. OTHER NON-CURRENT ASSETS

	Consolidated 2000 $'000	Consolidated 1999 $'000
Cost		
Beginning of year, as previously reported	**3,846**	16,817
Effect of change in accounting policy	**—**	(12,971)
Beginning of year, as restated	**3,846**	3,846
Additions	**69**	—
End of year	**3,915**	3,846
Accumulated amortisation		
Beginning of year, as previously reported	**(1,473)**	(6,776)
Effect of change in accounting policy	**—**	5,371
Beginning of year, as restated	**(1,473)**	(1,405)
Amortisation	**(191)**	(68)
End of year	**(1,664)**	(1,473)
Net book value		
Beginning of year, as previously reported	**—**	10,041
Beginning of year, as restated	**2,373**	2,441
End of year	**2,251**	2,373

From 1 January 1999, the Group has changed its accounting policy on the treatment of pre-operating expenditures and charges all the pre-operating expenditures to the consolidated income statement as incurred.

This change in accounting policy has been accounted for retrospectively, and the beginning accumulated losses as at 1 January 1999 have been increased by approximately $7,600,000.

17. INVENTORIES

	Consolidated	
	2000	1999
	$'000	$'000
Raw materials	**11,562**	15,912
Work-in-progress	**682**	185
Finished goods	**6,299**	7,665
Less: Provision for inventory obsolescence	**(2,159)**	(2,159)
	16,384	21,603

18. ACCOUNTS RECEIVABLE, NET

	Consolidated	
	2000	1999
	$'000	$'000
Accounts receivable	**105,098**	98,170
Less: Provision for doubtful receivables	**(58,309)**	(51,608)
	46,789	46,562

The credit terms of the Group granted to the customers are normally 90 days. The aging analysis of accounts receivable was as follows:

	Consolidated	
	2000	1999
	$'000	$'000
Within 90 days	**20,743**	27,521
Over 90 days but within 180 days	**14,555**	10,235
Over 180 days but within 360 days	**14,391**	12,679
Over 360 days	**55,409**	47,735
	105,098	98,170

19. RECEIVABLE FROM SUBCONTRACTOR

	Consolidated	
	2000	1999
	$'000	$'000
Receivable from subcontractor	**6,067**	6,900
Less: Provision for doubtful receivable	**(4,551)**	(4,519)
	1,516	2,381

20. INVESTMENTS IN SECURITIES

	Consolidated		Company	
	2000	1999	**2000**	1999
	$'000	$'000	**$'000**	$'000
Debt securities				
Unlisted, at carrying value	**3,004**	3,004	**3,004**	3,004
	3,004	3,004	**3,004**	3,004
Equity securities				
Listed in Hong Kong, at carrying value	**8,326**	8,326	**8,326**	8,326
Unlisted, at carrying value	**9,281**	—	**—**	—
	17,607	8,326	**8,326**	8,326
Total	**20,611**	11,330	**11,330**	11,330
Quoted market value of listed investments	**8,323**	8,326	**8,323**	8,326

21. INVESTMENTS HELD FOR DISPOSAL

	Consolidated	
	2000	1999
	$'000	$'000
Land use rights for land located in the PRC	**18,725**	18,725
Self-constructed buildings located in the PRC	**60,978**	107,370
Less: Provision for impairment in value	**(38,329)**	(31,870)
	41,374	94,225

22. OTHER CURRENT ASSETS

	Consolidated		Company	
	2000	1999	**2000**	1999
	$'000	$'000	**$'000**	$'000
Advances to employees	**7,341**	6,471	**—**	—
Amounts due from related parties	**1,234**	2,089	**—**	—
Other receivables	**71,383**	21,562	**148**	140
Less: Provision for doubtful receivables	**(6,959)**	(4,563)	**—**	—
	72,999	25,559	**148**	140

Advances to employees mainly represent loans to employees by Guangdong Apollo and are granted for their purchase of apartments. These advances bear interest at rates of 3% to 4% per annum, are due in one year and could be extended upon expiry. The advances are secured by the property title deeds of the related apartments.

Amounts due from related parties are unsecured, interest free and due within one year.

Included in other receivables is an amount of $40,000,000 (1999: nil) receivable from a third party company, which bears interest at a rate of 0.7% per month, is unsecured and due within one year. $35,000,000 of this amount was repaid on 6 April 2001.

23. SHARE CAPITAL

	Number of shares		Nominal value	
	2000	1999	**2000**	1999
	'000	*'000*	**$'000**	*$'000*
Authorised (shares of $0.10 each)	**1,600,000**	1,600,000	**160,000**	160,000
Issued and fully paid or credited as fully paid (shares of $0.10 each)	**815,100**	815,100	**81,510**	81,510

24. SHARE OPTIONS

The Company has a share option scheme under which it may grant options to executive directors and employees of the Group to subscribe for shares in the Company, subject to a maximum of 10% of the nominal value of the issued share capital of the Company from time to time excluding shares issued on exercise of options. The subscription price is determined by the Company's directors, and will not be less than the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares quoted on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of grant of the options.

Movements in share options during the year are as follows:

		Number of share options			
Date of grant	**Subscription price per share**	**Beginning of year**	**Granted during the year**	**Lapsed during the year**	**End of year**
4 March 1996	$1.44	3,500,000	—	—	3,500,000

The share options are exercisable over a period of ten years commencing 4 March 1996.

25. RESERVES AND ACCUMULATED LOSSES

	2000						1999
	Share premium	Statutory reserves	Contributed surplus	Cumulative translation adjustments	Accumulated losses	Total	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Group							
Beginning of year, as previously reported	208,417	148,158	249,906	(71,078)	(156,511)	378,892	409,985
Effect of change in accounting policy with respect to the capitalisation of pre-operating expenditures (Note 16)	—	—	—	—	—	—	(7,600)
Beginning of year, as restated	208,417	148,158	249,906	(71,078)	(156,511)	378,892	402,385
Translation difference	—	—	—	1,089	—	1,089	714
Loss for the year	—	—	—	—	(117,224)	(117,224)	(24,207)
End of year	208,417	148,158	249,906	(69,989)	(273,735)	262,757	378,892
Company							
Beginning of year	208,417	—	409,520	—	(235,978)	381,959	413,902
Loss for the year	—	—	—	—	(117,228)	(117,228)	(31,943)
End of year	208,417	—	409,520	—	(353,206)	264,731	381,959

The contributed surplus of the Group arose from the contribution of 95% equity interests in Guangdong Apollo to China Apollo Enterprises (Hong Kong) Limited by a shareholder of the Company. The contribution is not a loan, gift or subsidy of any kind and the shareholder is not entitled to receive any shares. The contributed surplus of the Company represents the difference between the nominal amount of the Company's shares issued and the book value of the underlying net assets of a subsidiary acquired as a result of group reorganisation. Under the Companies Act 1981 of Bermuda (as amended), save in certain circumstances, contributed surplus is distributable to shareholders.

25. RESERVES AND ACCUMULATED LOSSES *(Cont'd)*

As stipulated in the relevant laws and regulations for Sino-foreign equity joint venture enterprises, Guangdong Apollo and Li Cheng, the principal subsidiaries, are required to maintain certain statutory reserves which include the general reserve fund and staff welfare and bonus fund. Appropriations to the general reserve fund and the staff welfare and bonus fund are made out of net profit as reported in the statutory accounts and charged to profit before taxation respectively. The amounts of appropriations are determined by the respective board of directors. All statutory reserves are for specific purposes and are not distributable in the form of cash dividends. Provision for staff welfare and bonus is included in current liabilities in the consolidated balance sheet.

As at 31 December 2000, approximately $56,314,000 (1999: $173,542,000) of the Company's reserves, net of accumulated losses, are available for distribution to the Company's shareholders.

26. ACCOUNTS PAYABLE AND ACCRUALS

	Consolidated		Company	
	2000	1999	**2000**	1999
	$'000	$'000	**$'000**	$'000
Accounts payable	**16,735**	4,914	**—**	—
Accruals	**40,221**	26,924	**623**	624
	56,956	31,838	**623**	624

All accounts payable were aged less than one year.

27. PROVISION FOR WARRANTY

	Consolidated	
	2000	1999
	$'000	$'000
Beginning of year	**15,379**	22,833
Write back for the year	**(6,690)**	(4,782)
Utilisation	**(787)**	(2,672)
End of year	**7,902**	15,379

28. SHORT-TERM BANK LOANS

Short-term bank loans are denominated in Renminbi and granted by banks in the PRC, and bear interest at rates of 6.435% to 7.722% per annum. As at 31 December 2000, all the banking facilities were drawn down (1999: $41,029,000).

Loans of approximately $40,260,000 (1999: $39,151,000) are secured by buildings of the Group with an aggregate carrying amount of approximately $49,236,000 (1999: $59,616,000).

Loans of approximately RMB12,500,000 (1999: nil) are secured by the Group's time deposits of $12,500,000 (1999: nil).

29. DEFERRED TAXATION

There is no significant unprovided deferred taxation.

30. COMMITMENTS

(a) Capital

	Consolidated	
	2000	1999
	$'000	$'000
Authorised and contracted for	**45,810**	74,567
Authorised but not contracted for	**—**	10,729
	45,810	85,296

The capital commitments were related to the purchase of fixed assets.

30. COMMITMENTS *(Cont'd)*

(b) Operating lease

Operating lease commitments as at 31 December 2000 amount to approximately $300,000 (1999: $3,457,000), all of which (1999: $3,097,000) is payable in the next twelve months. The amount payable in the next twelve months, analysed according to the period in which the leases expire, is as follows:

	Consolidated	
	2000	1999
	$'000	*$'000*
Land and buildings		
Expiring in the first year	**300**	2,737
Expiring in the second to fifth years inclusive	**—**	360
	300	3,097

31. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss before taxation to net cash (outflow) inflow from operating activities:

	Consolidated	
	2000	1999
	$'000	$'000
Loss before taxation	**(123,007)**	(24,340)
Depreciation	**25,645**	21,124
Loss on disposal of fixed assets	**12,750**	4,199
Interest income	**(4,887)**	(6,752)
Interest expense	**3,186**	2,988
Dividend income	**(158)**	(191)
Written off of obsolete inventories	**6,006**	—
Provision for doubtful receivables	**9,129**	—
Provision for unrecoverable prepayments	**13,955**	—
Amortisation of other non-current assets	**191**	68
Provision for impairment in value of investment in an unconsolidated subsidiary	**3,033**	—
Provision for investments held for disposal	**6,459**	4,694
Write back of provision for warranty	**(6,690)**	(4,782)
	(54,388)	(2,992)
Increase in accounts receivable	**(6,928)**	(4,410)
(Increase) decrease in inventories	**(787)**	8,058
Decrease in receivable from subcontractor	**833**	771
Decrease in investments held for disposals	**46,392**	6,380
Increase in other current assets	**(49,564)**	(19,009)
Increase in accounts payable and accruals	**24,175**	6,517
(Decrease) increase in deposits from customers	**(29,978)**	7,288
Decrease in provision for staff welfare and bonus	**(291)**	(303)
Net cash (outflow) inflow from operating activities	**(70,536)**	2,300

31. NOTES TO CONSOLIDATED CASH FLOW STATEMENT *(Cont'd)*

(b) Analysis of cash and cash equivalents:

	Consolidated	
	2000	1999
	$'000	$'000
Cash and bank balances	**32,826**	129,931
Short-term bank loans	**(10,560)**	(41,029)
	22,266	88,902

32. RETIREMENT SCHEME

The Group has a defined contribution retirement scheme for all qualified employees in Hong Kong. The assets of the scheme are held separately under a provident fund managed by an independent trustee. Pursuant to the rules of the scheme, both the employer and the employees are required to make contributions to the scheme calculated at 5% of the employees' basic salaries on a monthly basis. The employees are entitled to 100% of the employer's contributions and the accrued interest after 10 complete years of service, or at an increasing scale of between 30% to 90% after completion of 3 to 9 years' service.

Where there are employees who leave the scheme prior to vesting fully in the contributions, in accordance with the rules of the scheme, the forfeited employer's contributions will be refunded to the employer.

The employees of the PRC subsidiaries in the PRC are covered by a Central Pension Scheme operated by the local government. The subsidiaries are required to contribute 18% of the average monthly salary to the local government to fund the benefits, which is the only obligation for the Group with respect to this pension scheme.

The amounts of contribution to the retirement scheme and Central Pension Scheme are as follows:

	Consolidated	
	2000	1999
	$'000	$'000
Employer's contribution	**1,503**	956

33. CONTINGENT LIABILITIES

The Group has no significant contingent liabilities as at 31 December 2000.

34. COMPARATIVE FIGURES

Certain of the 1999 comparative figures have been reclassified to conform to the current year's presentation. The directors consider that certain expenses previously classified as administrative expenses in 1999 were more appropriate to be classified as other operating expenses, and the current year presentation of turnover by product categories reflects more clearly the current product mix of the Group.