APOLLO

太阳神

CHINA APOLLO HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Interim Report 2001

The Board of Directors (the "Directors") of China Apollo Holdings Limited (the "Company") announces the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2001 together with the comparative figures for the corresponding period in 2000 as follows:—

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)
FOR THE SIX MONTHS ENDED 30 JUNE 2001

(Amounts expressed in thousands of Hong Kong dollars, except for loss per share data)

	Note	**For the six months ended 30 June 2001 (Unaudited)**	2000 (Unaudited) *(Note 14)*
Turnover	*4*	**81,064**	89,613
Cost of sales		**(27,814)**	(33,955)
Gross profit		**53,250**	55,658
Other revenue		**5,979**	2,828
Distribution costs		**(44,477)**	(48,965)
Administrative expenses		**(31,233)**	(43,334)
Other operating expenses	*5*	**(39,494)**	(30,227)
Loss from operations		**(55,975)**	(64,040)
Finance costs		**(2,137)**	(1,649)
Share of loss of associate		**—**	—
Loss before tax		**(58,112)**	(65,689)
Taxation	*7*	**—**	—
Loss before minority interests	*6*	**(58,112)**	(65,689)
Minority interests		**2,374**	1,029
Loss attributable to shareholders		**(55,738)**	(64,660)
Dividends	*8*	**—**	—
Loss per share — basic	*9*	**(6.84 cents)**	(7.93 cents)
— diluted	*9*	**N/A**	N/A

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES (UNAUDITED)
FOR THE SIX MONTHS ENDED 30 JUNE 2001

(Amounts expressed in thousands of Hong Kong dollars)

	For the six months ended 30 June	
	2001	2000
	(Unaudited)	(Unaudited)
Translation difference	—	545
Loss attributable to shareholders	**(55,738)**	(64,660)
Total recognised losses	**(55,738)**	(64,115)

CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)
AS AT 30 JUNE 2001

(Amounts expressed in thousands of Hong Kong dollars)

	Note	**30 June 2001 (Unaudited)**	31 December 2000 (Audited)
ASSETS			
Non-current assets			
Fixed assets		**227,233**	271,997
Construction-in-progress		**2,556**	6,568
Prepayments for fixed assets		**6,476**	6,476
Investment in unconsolidated subsidiary		**715**	1,375
Investments in associates		**6,149**	9,678
Other non-current assets		**2,907**	2,251
		246,036	298,345
Current assets			
Inventories		**16,455**	16,384
Accounts receivable, net	*10*	**49,939**	46,789
Receivable from subcontractor		**2,479**	1,516
Investments in securities		**16,352**	20,611
Investments held for disposal		**41,374**	41,374
Other current assets		**33,813**	72,999
Cash and bank balances		**74,872**	45,326
		235,284	244,999
Total assets		**481,320**	543,344

CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED) *(Cont'd)*
AS AT 30 JUNE 2001
(Amounts expressed in thousands of Hong Kong dollars)

	Note	**30 June 2001 (Unaudited)**	31 December 2000 (Audited)
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	*11*	**81,510**	81,510
Reserves	*12*	**536,492**	536,492
Accumulated losses	*12*	**(329,473)**	(273,735)
		288,529	344,267
Minority interests		**17,724**	20,097
Current liabilities			
Provision for staff welfare and bonus		**60,266**	60,190
Accounts payable and accruals	*13*	**62,396**	56,956
Provision for warranty		**7,902**	7,902
Short-term bank loans		**44,503**	53,932
		175,067	178,980
Total equity and liabilities		**481,320**	543,344

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED) FOR THE SIX MONTHS ENDED 30 JUNE 2001

(Amounts expressed in thousands of Hong Kong dollars)

	For the six months ended 30 June 2001 (Unaudited)
Net cash inflow from operating activities	44,627
Net cash inflow from investing activities	6,848
Net cash outflow from financing activities	(17,726)
Increase in cash and cash equivalents	33,749
Cash and cash equivalents, beginning of period	22,266
Cash and cash equivalents, end of period	56,015
Analysis of cash and cash equivalents:	
Cash and bank balances	74,872
Short-term bank loans — matured within 3 months	(18,857)
Cash and cash equivalents, end of period	56,015

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2001

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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. BASIS OF PRESENTATION

The condensed interim consolidated financial statements of the Group have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules").

The condensed interim consolidated financial statements have been reviewed by the audit committee of the Company.

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

No condensed consolidated cash flow statement for the six months ended 30 June 2000 has been prepared. Such exemption is granted under the provisions of Appendix 16 (Section 37.3) of Listing Rules.

3. ACCOUNTING POLICIES

Except for those changes in accounting policies discussed below, the accounting policies adopted by the Group during the six months ended 30 June 2001 are the same as those adopted in the preparation of the annual financial statements for the year ended 31 December 2000.

In the current period, the Group has adopted, for the first time, the following SSAP:

SSAP 9 (revised)	Events after the balance sheet date
SSAP 14 (revised)	Leases
SSAP 26	Segment reporting
SSAP 28	Provisions, contingent liabilities and contingent assets
SSAP 29	Intangible assets
SSAP 30	Business combinations
SSAP 31	Impairment of assets
SSAP 32	Consolidated financial statements and accounting for investments in subsidiaries

The effects of the adoption of the above accounting standards are as follows:

(a) The adoption of SSAP 31 "Impairment of assets" results in a change in accounting policies whereby property, plant and equipment and intangible assets and investments in associates are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in income for items of property, plant and equipment and intangibles and investments in associates carried at cost and treated as a revaluation decrease for buildings that are carried at revalued amount to the extent that the impairment loss does not exceed the amount held in the revaluation surplus for that same building. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit. Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or has decreased. The reversal is recorded in income or as a revaluation increase.

According to the provisions of SSAP 31, this statement is applied on a prospective basis only. As a result of this change in accounting policies, approximately $33,514,000 had been provided for as impairment loss of unused buildings as at 30 June 2001.

(b) Except for the changes as described above, the adoption of other SSAP has no material impact on the reported financial position or results of the Group.

4. SEGMENT INFORMATION

Analysis of turnover and contribution to operating profit (loss) by product categories is as follows:

	Turnover for the six months ended 30 June		**Contribution to operating profit (loss) for the six months ended 30 June**	
	2001 (Unaudited)	2000 (Unaudited)	**2001 (Unaudited)**	2000 (Unaudited)
	$'000	*$'000*	***$'000***	*$'000*
Health products	**71,232**	76,893	**(14,343)**	(29,672)
Health drinks	**5,624**	8,967	**(1,216)**	(3,939)
Pharmaceutical products	**3,920**	3,486	**(612)**	(2,965)
Others	**288**	267	**4**	(65)
	81,064	89,613	**(16,167)**	(36,641)
Other revenue			**5,979**	2,828
Other operating expenses *(see Note 5)*			**(39,494)**	(30,227)
Other unallocated expenses			**(8,430)**	(1,649)
Loss before tax			**(58,112)**	(65,689)

All turnover was derived in the PRC.

5. OTHER OPERATING EXPENSES

	For the six months ended 30 June	
	2001 (Unaudited)	2000 (Unaudited)
	$'000	*$'000*
Provision for impairment loss of unused buildings	**33,514**	—
Provision for impairment in value of investment in associates	**4,000**	2,723
Provision for investments held for disposal	**—**	4,178
Provision for impairment in value of investment in securities	**1,980**	—
Provision for unrecoverable prepayments	**—**	9,163
Loss on disposal of fixed assets	**—**	14,163
	39,494	30,227

6. LOSS BEFORE MINORITY INTERESTS

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

	For the six months ended 30 June	
	2001	2000
	(Unaudited)	(Unaudited)
	$'000	*$'000*
Crediting:		
Interest income	**980**	2,366
Exchange gain	**572**	—
Gain on disposal of fixed assets	**3,526**	—
Write back of provision for warranty	—	4,000
Rental income	**2,566**	3,746
Charging:		
Depreciation of fixed assets	**(11,329)**	(12,823)
Amortisation of other non-current assets	**(101)**	(101)
Provision for impairment in value of investment in unconsolidated subsidiary	**(660)**	—
Provision for doubtful receivables	**(8,273)**	(9,450)
Operating lease rentals in respect of land and buildings	**(764)**	(998)
Interest expenses	**(2,137)**	(1,478)
Exchange loss	—	(171)

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% (2000: 16%) on the estimated assessable profit arising in or derived from Hong Kong. There is no Hong Kong profits tax liabilities for the six months ended 30 June 2001 (for the six months ended 30 June 2000: 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 six months ended 30 June 2001, no PRC enterprise income tax has been provided (for the six months ended 30 June 2000: Nil).

8. DIVIDENDS

The directors do not recommend the payment of a dividend for the six months ended 30 June 2001 (for the six months ended 30 June 2000: nil).

9. LOSS PER SHARE

The calculation of basic loss per share for the six months ended 30 June 2001 is based on the consolidated loss attributable to shareholders of approximately $55,738,000 (for the six months ended 30 June 2000: loss of approximately $64,660,000) and the 815,100,000 shares (for the six months ended 30 June 2000: 815,100,000 shares) in issue during the period.

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.

10. ACCOUNTS RECEIVABLE

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

	30 June 2001 (Unaudited)	31 December 2000 (Audited)
	$'000	*$'000*
Within 90 days	**32,271**	20,743
Over 90 days but within 180 days	**15,482**	14,555
Over 180 days but within 360 days	**5,484**	14,391
Over 360 days	**57,392**	55,409
	110,629	105,098
Less: Provision for doubtful debts	**(60,690)**	(58,309)
	49,939	46,789

11. SHARE CAPITAL

	Number of shares		**Nominal value**	
	2001	2000	**2001**	2000
	'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

12. RESERVES AND ACCUMULATED LOSSES

For the six months ended 30 June 2001 (Unaudited)

	Share premium $'000	Statutory reserves $'000	Contributed surplus $'000	Cumulative translation adjustments $'000	Accumulated losses $'000	Total $'000
Beginning of period	208,417	148,158	249,906	(69,989)	(273,735)	262,757
Loss for the period	—	—	—	—	(55,738)	(55,738)
End of period	208,417	148,158	249,906	(69,989)	(329,473)	207,019

For the six months ended 30 June 2000 (Unaudited)

	Share premium $'000	Statutory reserves $'000	Contributed surplus $'000	Cumulative translation adjustments $'000	Accumulated losses $'000	Total $'000
Beginning of period	208,417	148,158	249,906	(71,078)	(156,511)	378,892
Translation difference	—	—	—	545	—	545
Loss for the period	—	—	—	—	(64,660)	(64,660)
End of period	208,417	148,158	249,906	(70,533)	(221,171)	314,777

13. ACCOUNTS PAYABLE AND ACCRUALS

	30 June 2001 (Unaudited) $'000	31 December 2000 (Audited) $'000
Accounts payable	**7,285**	16,735
Accruals	**55,111**	40,221
	62,396	56,956

All accounts payable were aged less than one year.

14. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation in accordance with the presentation and disclosure requirements of the revised and new SSAP as mentioned in Note 3 and the new Appendix 16 of Listing Rules. The comparative condensed consolidated income statement for the six months ended 30 June 2000 and the comparative consolidated statement of recognised gains and losses for the same period disclosed in the interim financial statements have not been reviewed in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants.

ANDERSEN

INDEPENDENT REVIEW REPORT
TO THE BOARD OF DIRECTORS OF
CHINA APOLLO HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

Introduction

We have been instructed by the company to review the interim financial statements for the six months ended 30 June 2001 set out on pages 1 to 11.

Directors' responsibilities

The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice No. 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial statements for the six months ended 30 June 2001.

ARTHUR ANDERSEN & CO
Certified Public Accountants

Hong Kong,
19 September 2001

INTERIM DIVIDEND

The Directors have resolved not to recommend the payment of an interim dividend for the six months ended 30 June 2001 (2000: Nil).

BUSINESS REVIEW AND PROSPECTS

For the six months ended 30 June 2001, the Group's turnover was HK$81,064,000 (2000: HK$89,613,000), representing a decrease of 9% as compared with the corresponding period of last year. The Group reported a consolidated loss attributable to shareholders of approximately HK$55,738,000 as compared with a loss of HK$64,660,000 for the same period last year.

During the period under review, the sales of existing tonic drink products (including Houtou Mushroom tonic drink and Chrysanthemum tonic drink) had gradually stabilised and recorded a mild decrease of 8% as compared with the same period last year.

Starting from April 2001, the PRC authorities has imposed some new regulatory restrictions on the advertising of health products in the PRC, in particular on the functions and effectiveness of health products in advertisements. In the short term, this has created some negative impact on the health products market, especially by hampering confidence of consumers in health products. This kind of measures has affected the growing trend of our new health products (including "STORM fat loss capsule" and "Duo Bu Gai"), which were launched last year and the turnover of which failed to meet our expected target. As a result, the sales of these two products were dropped by 41% when compared with the corresponding period of last year.

In order to improve the Group's performance, the Group has committed to developing new products. During the period under review, two new health products called "CHANGING" Capsule and "BRILLIANCE" Fat Loss Capsule were launched in January 2001 and April 2001 respectively. The preliminary response to these two new products was encouraging with a combined turnover of approximately RMB12.4 million, representing 14% of the Group's total turnover for the period under review.

For the second half of the year, the Group will undergo an organizational restructuring, in particular, the restructuring of our sales districts which will cut down some unprofitable sales offices through their combination with other sales districts. Each sale district will be assigned with designated sales targets whereby its remuneration will be linked to its sales performance. Moreover, the Group will continue to launch further new products with higher profit margins in order to enhance the Group's future profitability. As the PRC is going to join the WTO in the near future, the Directors believe that consumer spending in the PRC will continue to grow in the long run. Together with stringent cost control measures, the Directors believe that the Group's profitability will improve in the near future.

FINANCIAL RESOURCES AND LIQUIDITY

As at 30 June 2001, the Group's cash and bank balances were HK$74,872,000 (31 December 2000: HK$45,326,000), of which 36% were denominated in Hong Kong Dollars, 61% in Renminbi and 3% in US Dollars.

As at 30 June 2001, the Group had outstanding short-term bank loans of approximately HK$44,503,000 in total, (31 December 2000: HK$53,932,000) all of which were in Renminbi and granted by banks in the PRC. The interest rates charged by the banks ranged from 5.3625% to 6.435% per annum. These bank loans were pledged by buildings of the Group with a net book value of approximately HK$62,000,000.

As at 30 June 2001, the Group's total assets amounted to HK$481,320,000, representing a decrease of HK$62,024,000 or 11.4% as compared with that of last financial year end date. The current ratio and gearing ratio of the Group as at 30 June 2001 were 1.34 and 15.4% respectively as compared with the respective ratios of 1.37 and 15.7% as at 31 December 2000.

Since the Group's principal activities are in the PRC and the financial resources available, including cash on hand and bank borrowings, are mainly in Renminbi and Hong Kong Dollars, the exposure to exchange fluctuation is relatively low.

EMPLOYEES

As at 30 June 2001, the Group had a total number of 661 full time employees. The total staff remuneration (mainly representing basic salaries) for the six months ended 30 June 2001 was HK$10,515,000.

In addition to basic salaries, the Group also provides other staff benefits which include medical subsidies, retirement scheme contributions and year end double pay. The Group provides appropriate training programmes to staff when required in order to upgrade the knowledge and skills of its staff. The Group has a share option scheme for executive directors and senior employees but no share option was granted during the period under review.

CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 30 June 2001.

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2001, the Directors of the Company had the following interests in the shares of HK$0.10 each in the capital of the Company ("Shares") or debentures of the Company or shares in or debentures of any associated corporation (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 to the SDI Ordinance:

Name	Personal Interest	Corporate Interest	Total	Percentage of Total Shares Outstanding
Mr. Lok Fai	—	600,000,000 *	600,000,000	73.6%

* As at 30 June 2001 these shares were held by Sunny Fortune Limited which is beneficially owned by Mr. Lok Fai. The interests of Mr. Lok Fai in the Shares were, accordingly, corporate interest in the Company as described 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 30 June 2001.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Pursuant to the Company's Share Option Scheme adopted on 2 December 1995, the Company may grant options to executive directors and employees of the Group to subscribe for Shares up to a maximum of 10 per cent. of the issued share capital of the Company from time to time. As at 30 June 2001, the share options held by and granted to the directors of the Company were as follows:—

	Subscription price per share	Unexercised options at 1.1.2001	Option exercised during the period	Unexercised options at 30.6. 2001
Tseung Wai Lok	HK$1.44	1,000,000	—	1,000,000
Zhang Tie Cheng	HK$1.44	1,300,000	—	1,300,000
Lau Chan Wing, Raymond	HK$1.44	1,200,000	—	1,200,000

Save as disclosed above, none of the directors or their associates had any other interests (whether beneficial or non-beneficial) in the share capital of the Company or any associated corporations as defined in the SDI Ordinance as at 30 June 2001.

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed above in respect of director's interests in Shares, the register of substantial shareholders kept by the Company under section 16(1) of the SDI Ordinance discloses no person as having an interest in 10% or more of the issued share capital of the Company as at 30 June 2001.

PURCHASE, SALE OR REDEMPTION OF OWN SECURITIES

There was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the six months ended 30 June 2001.

AUDIT COMMITTEE

At the request of the Audit Committee of the Company, the Group's external auditors have carried out a review of the unaudited financial statements in accordance with the Statement of Auditing Standards 700 issued by the Hong Kong Society of Accountants. The Audit Committee has reviewed with management the Group's accounting principles and practices and discussed internal control and financial reporting matters including the review of the unaudited interim financial statements for the six months ended 30 June 2001.

CODE OF BEST PRACTICE

In the opinion of the Directors, the Company had complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") during the six months ended 30 June 2001 except that the Non-executive Directors are not appointed for a specific term as they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with Article 87 of the Company's Bye-laws.

By order of the Board
Lok Fai
Chairman

Hong Kong, 19 September 2001