

The directors are pleased to present their report together with the audited financial statements of China Apollo Holdings Limited (hereinafter as the “Company”) and its subsidiaries (together with the Company hereinafter as the “Group”) for the year ended 31 December 2001.

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 and contribution to operating profit (loss) by product categories for the year ended 31 December 2001 are analysed as follows:

	Turnover		Contribution to operating profit (loss)	
	2001	2000	2001	2000
	\$'000	\$'000	\$'000	\$'000
Health products	109,523	133,313	(5,060)	(8,533)
Health drinks	10,249	17,326	(610)	(3,738)
Pharmaceutical products	6,676	6,840	(1,636)	649
Others	704	396	177	(13)
	<u>127,152</u>	<u>157,875</u>	<u>(7,129)</u>	<u>(11,635)</u>
Other revenue			8,273	7,956
Other operating expenses			(97,996)	(36,197)
Other unallocated expenses			(66,172)	(83,131)
Loss before tax			<u>(163,024)</u>	<u>(123,007)</u>

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2001 are set out on page 25 of the financial statements.

The directors do not recommend the payment of a dividend.

REPORT OF THE DIRECTORS

(Amounts expressed in Hong Kong dollars)

RESERVES

The Company's accumulated losses of approximately \$508,945,000 as at 31 December 2001 is carried forward.

Other movements in the reserves of the Company and the Group during the year are set out in Note 25 to the financial statements.

DONATIONS

No donation was made during the year ended 31 December 2001.

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 as at 31 December 2001 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.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association and there is no restriction against such rights under the laws in Bermuda.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2001, the five largest customers of the Group accounted for approximately 20% (2000: 21%) of the Group's total turnover, with the largest customer accounted for approximately 6% (2000: 8%).

The five largest suppliers for the year ended 31 December 2001 accounted for approximately 45% (2000: 45%) of the Group's total purchases, with the largest supplier accounted for approximately 16% (2000: 16%).

At no time during the year have the directors, their associates, or any shareholder of the Company who to the knowledge of the directors owned more than 5% of the Company's share capital had any interest in these major customers and suppliers.

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 (resigned as Chairman and appointed as Deputy Chairman on 20 March 2002)

Mr. TSEUNG Wai Lok (resigned on 19 March 2002)

Mr. ZHANG Tie Cheng (resigned on 19 March 2002)

Mr. LAU Chan Wing, Raymond (resigned on 19 March 2002)

Mr. PAN Hao Hao (resigned on 19 March 2002)

Non-Executive Directors

Mr. GOH Gen Cheung

Mr. WU King Cheong (resigned on 19 March 2002)

The following directors were appointed directors after the end of the financial year:

Executive Directors

Ms. LO Yuk Yee (appointed as Executive Director on 19 March 2002 and elected as Chairman on 20 March 2002)

Dr. ZANG Jing Wu (appointed on 19 March 2002)

Dr. LIU Juh, James (appointed on 19 March 2002)

Non-Executive Directors

Mr. HO Kwok Wah, George (appointed on 19 March 2002)

Mr. YUEN Kin (appointed on 16 April 2002)

In accordance with the bye-laws of the Company, Mr. Lok Fai and Mr. Ho Kwok Wah, George retire from the board by rotation and, being eligible, offer themselves for re-election.

Mr. Lok Fai has a service contract with the Company, which is 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.

REPORT OF THE DIRECTORS

(Amounts expressed in Hong Kong dollars)

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2001, 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:

Name of director	Number of shares held		
	Personal interests	Family interests	Corporate interests
Mr. Lok Fai	—	—	600,000,000*

* As at 31 December 2001, 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.

Other than as disclosed above, none of the directors, the chief executive or their associates had any personal, family, corporate or other interests in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance as at 31 December 2001.

DIRECTORS' RIGHTS TO ACQUIRE SHARES IN THE COMPANY

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

Name of director	Date of grant	Exercise period	Exercise price per share	Number of share options				
				Outstanding at 1/1/2001	Granted during the year	Exercised during the year	Lapsed/ cancelled during the year	Outstanding at 31/12/2001
Mr. Tseung Wai Lok	4 March 1996	4 March 1996 ~ 3 March 2006	\$1.44	1,000,000	—	—	—	1,000,000
Mr. Zhang Tie Cheng	4 March 1996	4 March 1996 ~ 3 March 2006	\$1.44	1,300,000	—	—	—	1,300,000
Mr. Lau Chan Wing, Raymond	4 March 1996	4 March 1996 ~ 3 March 2006	\$1.44	1,200,000	—	—	—	1,200,000

DIRECTORS' RIGHTS TO ACQUIRE SHARES IN THE COMPANY *(Cont'd)*

Other than as disclosed above, at no time during the year was the Company or any of its holding companies, fellow subsidiaries or subsidiaries, 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 OF SIGNIFICANCE

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

MANAGEMENT CONTRACT

No contracts concerning the management and administration of the Company were entered into or existed during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of directors of the Company has interest in competing businesses as at 31 December 2001 required to be disclosed pursuant to Rule 8.10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

CONNECTED TRANSACTIONS

There were no significant connected transactions of the Group during the year.

SUBSTANTIAL SHAREHOLDER

As at 31 December 2001, 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 31 December 2001.

Subsequent to 31 December 2001, there is a change in substantial shareholder. Details of such change are set out in Note 34 to the financial statements.

REPORT OF THE DIRECTORS

(Amounts expressed in Hong Kong dollars)

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year ended 31 December 2001, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2001 are set out in Note 28 to the financial statements.

FIVE YEAR SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 54 of the annual report.

RETIREMENT SCHEMES

Particulars of retirement schemes are set out in Note 32 to the financial statements.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

Throughout the year, the Company has complied fully with the Code of Best Practice as set out by the Stock Exchange of Hong Kong Limited in Appendix 14 of the Listing Rules save that the non-executive directors are not appointed for specific term of office.

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

Lo Yuk Yee

Chairman

Hong Kong
22 April 2002