(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").

Subsequent to 31 December 2001, there is a change in majority shareholder and ultimate holding company (see Note 34). Pursuant to this change, the directors of the Company consider Vision Ocean Investments Limited ("Vision Ocean"), a company incorporated in the British Virgin Islands, to be the ultimate holding company.

The average number of employees in the Group was 627 in 2001 (2000: 779). The registered office of the Company is located at Clarendon House, Church Street, Hamilton HM11 in Bermuda.

2. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of presentation

The financial statements are prepared under historical cost conversion and in accordance with the Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants and accounting principles generally accepted in Hong Kong (collectively "HK GAAP"), the disclosure requirements of the 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 the 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) Adoption of new Statements of Standard Accounting Practice

In the current year, the Group has adopted, for the first time, the following SSAP issued by the Hong Kong Society of Accountants:

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

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

(b) Adoption of new Statements of Standard Accounting Practice *(Cont'd)*

In addition to the adoption of the above new standards, the Group has adopted the consequential changes made to SSAP 10 "Accounting for investments in associates", SSAP 17 "Property, plant and equipment" and SSAP 18 "Revenue". Other than those disclosed in the respective notes to the financial statements, the Group considers that the consequential changes made to the above SSAP do not have material impact on the financial statements of the Group.

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

(i) SSAP 31 prescribes the accounting for and disclosure of impairment of assets. It requires that the recoverable amount of an asset should be estimated whenever there is an indication that the asset may be impaired or previous impairment may no longer exist or may have decreased. It also requires that an impairment loss be recognised whenever the carrying amount of an asset exceeds its recoverable amount.

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 $90,189,000 has been provided for as impairment loss in respect of certain of the Group's land use rights and buildings as at 31 December 2001 (see Notes 11 and 21).

(ii) SSAP 26 establishes principles for reporting financial information by segment to help users of financial statements to better understand an enterprise and make more informed judgments about an enterprise as a whole. This change in accounting policies has been applied retrospectively.

(iii) Except for the changes as described in (i) and (ii) above, the adoption of other new SSAP has no material impact on the reported financial position or results of the Group.

(c) Basis of consolidation

The consolidated financial statements of the Group include the accounts of the Company and the enterprises that it controls. This control is normally evidenced when the Group has the power to govern the financial and operating policies of an enterprise so as to benefit from its activities. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal. The equity and net income attributable to minority shareholders' interests are shown separately in the Group's balance sheet and income statement, respectively.

Significant intra-group balances, transactions and resulting unrealised profits are eliminated on consolidation. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

In the Company's financial statements, investments in subsidiaries are carried at cost less any accumulated impairment losses. The results of the subsidiaries are included in the income statement to the extent of dividends received and receivable.

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

(d) Turnover

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

(e) 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 is recognised when the significant risks and rewards of ownership of goods have been transferred to the buyer.

(ii) Interest income

Interest income from bank deposits is recognised on a time proportion basis that takes into account the effective yield on the assets. 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.

(f) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. 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 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 beyond its originally assessed standard of performance, the expenditure is capitalised as an additional cost of the fixed asset.

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

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

Depreciation is calculated on the straight-line basis at annual rates estimated to write off the cost 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%

The useful lives of assets and depreciation method are reviewed periodically.

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.

(g) Construction-in-progress

Construction-in-progress represents plant and properties under construction and is stated at cost less accumulated impairment losses. This includes cost of construction, plant and equipment and other direct costs plus borrowing costs which include interest charges and exchange differences arising from foreign currency borrowings used to finance these projects during the construction period, to the extent these are regarded as an adjustment to interest costs.

Construction-in-progress is not depreciated until such time as the assets are completed and ready for their intended use.

(h) Investments in associates

Investments in associates where significant influence is exercised by the Group are accounted for using the equity method in the consolidated financial statements, whereby the investment is initially recorded at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the associates, distributions received from the associates and other necessary alterations in the Group's proportionate interest in the associates arising from changes in the equity of the associates that have not been included in the income statement and less any accumulated impairment losses. The Group's share of post-acquisition results of associates is included in the consolidated income statement.

In the Company's financial statements, investments in associates are carried at cost less any accumulated impairment losses. The results of the associates are included in the income statement to the extent of dividends received and receivable.

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

(i) 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.

(j) Investments in securities

Securities that are held for the purpose of generating a profit from short-term fluctuations in price 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.

(k) 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.

(l) Cash and cash equivalents

Cash represents cash on hand and deposits with banks or other financial institutions which are repayable on demand.

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

(m) Operating leases

Leases of assets under which substantially all the rewards and risks of ownership are retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

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

(n) 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.

(o) Retirement benefits

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

(p) 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 in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, except where 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.

(q) Foreign currency

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. 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.

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

(r) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of the property that necessarily 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.

(s) 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.

(t) Impairment of assets

Fixed assets and intangible assets and investments in associates, joint ventures and subsidiaries 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 recognized in income for items of fixed assets and intangible assets and investments in associates, joint ventures and subsidiaries carried at cost and treated as a revaluation decrease for buildings that are carried at revalued amounts 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 the 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 the 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 recognized in prior years is recorded when the impairment losses recognized for the asset no longer exist or have decreased. The reversal is recorded in income or as a revaluation increase.

(u) Segments

Product segment is the distinguishable component that is engaged in providing a group of related products and that is subject to risks and returns that are different from those of other product segments. For management purposes the Group's turnover is divided into three major product segments.

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

(v) Provisions

A provision is recognised when an enterprise has a present obligation, legal or constructive, as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

(w) Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

(x) Subsequent events

Post-year-end events that provide additional information about a company's position at the balance sheet date or those that indicate the going concern assumption is not appropriate (adjusting events), are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

(y) Use of estimates

The preparation of financial statements in conformity with HK GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

3. SEGMENT INFORMATION

Analysis of turnover and contribution to operating profit (loss) by product categories are 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)
	127,152	157,875	**(7,129)**	(11,635)
Other revenue			**8,273**	7,956
Other operating expenses *(see Note 4)*			**(97,996)**	(36,197)
Other unallocated expenses			**(66,172)**	(83,131)
Loss before tax			**(163,024)**	(123,007)

All turnover was derived in the PRC.

4. OTHER OPERATING EXPENSES

	2001	2000
	$'000	*$'000*
Provision for impairment loss of fixed assets *(see Note 11)*	**71,161**	—
Provision for impairment loss of investments held for disposal *(see Note 21)*	**19,028**	6,459
Provision for impairment in value of investment in an associate	**5,370**	—
Provision for unrecoverable prepayments	**—**	13,955
Provision for impairment in value of investment in an unconsolidated subsidiary	**1,037**	3,033
Unrealised loss on investments in securities	**1,400**	—
Loss on disposal of fixed assets	**—**	12,750
	97,996	36,197

5. LOSS BEFORE TAX

Loss before tax was determined after crediting and charging the following:

	2001	2000
	$'000	$'000
Crediting:		
Rental income	**6,573**	7,512
Dividend income on investments in securities	**210**	158
Interest income		
— bank deposits	**1,453**	3,487
— others	**843**	1,400
Gain on disposal of investments	**—**	2,263
Gain on disposal of fixed assets	**4,941**	—
Exchange gain	**727**	—
Written back of provision for warranty	**6,514**	6,690
Charging:		
Staff costs (excluding directors)		
— salaries and wages	**18,747**	18,176
— staff and workers' bonus and welfare expenses	**3,587**	2,399
— contribution to retirement schemes	**1,574**	1,424
Interest expense	**3,795**	3,186
Written off of obsolete inventories	**4,908**	6,006
Depreciation on owned assets	**17,683**	25,645
Cost of inventories	**43,593**	44,965
Loss on disposal of fixed assets	**—**	12,750
Provision for impairment loss of fixed assets	**71,161**	—
Provision for impairment loss of investments held for disposal	**19,028**	6,459
Provision for doubtful receivables	**20,219**	9,129
Research and development costs expensed off	**5,285**	3,391
Exchange loss	**—**	335
Amortisation of other non-current assets	**263**	191
Operating lease rentals in respect of land and buildings	**3,541**	3,612
Auditors' remuneration	**1,200**	1,200

6. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

a. Details of directors' emoluments are as follows:

	2001	2000
	$'000	*$'000*
Executive directors		
Salaries, allowances and benefits in kind	**4,391**	4,508
Pension scheme contributions	**111**	79
Bonus paid and payable	**291**	282
	4,793	4,869
Non-executive directors		
Fees	**400**	400
	5,193	5,269

No directors waived the right to receive emoluments during the year.

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

	Number of directors	
	2001	2000
	$'000	*$'000*
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**	1
	4	4
Non-Executive directors		
— Nil to $1,000,000	**2**	2

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6. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS *(Cont'd)*

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

	2001	2000
	$'000	*$'000*
Salaries, allowances and benefits in kind	**4,994**	4,981
Pension scheme contributions	**111**	79
Bonus paid and payable	**278**	292
	5,383	5,352

	2001	2000
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:

	Number of individuals	
	2001	2000
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**	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% (2000: 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 2001 (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 year ended 31 December 2001, no PRC enterprise income tax has been provided (2000: Nil).

8. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders included a loss of approximately $155,739,000 (2000: loss of approximately $117,228,000) which has been dealt with in the accounts of the Company.

9. DIVIDENDS

The directors do not recommend the payment of a final dividend for the year ended 31 December 2001 (2000: nil).

10. LOSS PER SHARE

The calculation of basic loss per share is based on the consolidated loss attributable to ordinary shareholders of approximately $155,739,000 (2000: loss of approximately $117,224,000), divided by the weighted average number of ordinary shares outstanding during the year of 815,100,000 shares (2000: 815,100,000 shares).

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						
	2001						2000
	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	316,987	49,234	17,176	21,241	6,904	411,542	429,523
Translation difference	—	—	—	—	—	—	1,797
Additions	569	657	296	2,035	194	3,751	14,934
Transfer from construction-in-progress *(see Note 12)*	6,568	—	—	—	—	6,568	1,727
Transfer from prepayments for fixed assets *(see Note 13)*	6,476	—	—	—	—	6,476	—
Disposals	(8,495)	(1,900)	(986)	(3,664)	(432)	(15,477)	(36,439)
End of year	322,105	47,991	16,486	19,612	6,666	412,860	411,542
Accumulated depreciation and impairment losses							
Beginning of year	78,055	24,304	13,142	17,925	6,119	139,545	124,327
Translation difference	—	—	—	—	—	—	514
Charge for the year	10,788	4,518	907	1,227	243	17,683	25,645
Impairment losses	71,161	—	—	—	—	71,161	—
Disposals	(2,784)	(635)	(725)	(3,296)	(385)	(7,825)	(10,941)
End of year	157,220	28,187	13,324	15,856	5,977	220,564	139,545
Net book value							
End of year	164,885	19,804	3,162	3,756	689	192,296	271,997
Beginning of year	238,932	24,930	4,034	3,316	785	271,997	305,196

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11. FIXED ASSETS *(Cont'd)*

a. Analysis of net book value of land use rights and buildings is as follows:

	Consolidated	
	2001	2000
	$'000	*$'000*
Held outside Hong Kong on long-term lease (over 50 years)	**164,885**	238,932

b. Certain of the Group's land use rights and buildings with an aggregate carrying value of approximately $62,852,000 (2000: $49,236,000) are mortgaged as collateral for the Group's banking facilities (see Note 28).

c. The Group has engaged a firm of independent professional valuers to perform a valuation of land use rights and buildings, and plant and machinery as at 31 December 2001 using market and cost approaches. Pursuant to this, impairment loss of $71,161,000 on fixed assets and $19,028,000 on investments held for disposal were recorded.

12. CONSTRUCTION-IN-PROGRESS

	Consolidated	
	2001	2000
	$'000	*$'000*
Beginning of year	**6,568**	3,774
Additions	**—**	4,521
Transfer to fixed assets (see Note 11)	**(6,568)**	(1,727)
End of year	**—**	6,568

13. PREPAYMENTS FOR FIXED ASSETS

	Consolidated	
	2001	2000
	$'000	*$'000*
Machinery	**7,543**	7,543
Land use rights	**—**	12,888
Buildings	**—**	1,087
Less: Provision for unrecoverable prepayments	**(7,543)**	(15,042)
	—	6,476

Land use rights of net carrying value of approximately $6,476,000 was transferred to fixed assets during the year *(see Note 11)*.

14. INVESTMENTS IN SUBSIDIARIES

	Consolidated		Company	
	2001	2000	**2001**	2000
	$'000	*$'000*	***$'000***	*$'000*
Investments in unlisted shares, at cost	**5,335**	5,335	**404,630**	404,630
Due from subsidiaries	**—**	—	**246,111**	245,153
	5,335	5,335	**650,741**	649,783
Less: Provision for impairment loss	**(4,997)**	(3,960)	**(466,694)**	(314,400)
	338	1,375	**184,047**	335,383

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

As of 31 December 2001, particulars of the principal subsidiaries of the Company are as follows:

Name	Place of incorporation and principal country of operation	Percentage of equity interest held	Particulars of issued/paid-up capital	Principal activities
Consolidated subsidiaries				
Directly held				
China Apollo (BVI) Limited	British Virgin Islands	100%	US$10	Investment holding
Indirectly held				
China Apollo Enterprises (Hong Kong) Limited	Hong Kong	100%	HK$30,000 (a)	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
Unconsolidated subsidiary				
Indirectly held				
Shanghai Apollo-Fudan High-Tech. Industry Co. Ltd. ("Apollo Fudan") (b)	PRC	70%	RMB3,000,000	Manufacture and sale of pyruvat calcium series products and other chemical intermediates

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

a. Balance includes 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.

b. 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 loss.

15. INVESTMENTS IN ASSOCIATES

	Consolidated	
	2001	2000
	$'000	*$'000*
Investments in unlisted shares, at cost	**12,460**	9,678
Share of losses	**(453)**	—
	12,007	9,678
Less: Provision for impairment loss	**(5,370)**	—
	6,637	9,678

Details of the associates are as follows:

Name	Place of incorporation	Form of business structure	Percentage of equity interest held indirectly	Particulars of issued/paid-up capital	Principal activities
Data Logistics Limited	British Virgin Islands	Limited company	45%	USD100	Investment holding
Beijing Metrolink Embryo Biotech Company Limited	PRC	Sino-foreign joint venture	40%	RMB10,000,000	Biotech research and development of related technical know-how
Guangzhou Apollo Enterprise Company Limited	PRC	Sino-foreign joint venture	25%	RMB3,800,000	Sale of chemical, health and electronic products

Supplementary financial information of associates:

	Consolidated	
	2001	2000
	$'000	*$'000*
Balance sheet		
Share of net assets	**6,637**	9,678
Profit and loss		
Share of loss before taxation	**453**	—

16. OTHER NON-CURRENT ASSETS

	Consolidated	
	2001	2000
	$'000	*$'000*
Cost		
Beginning of year	**3,915**	3,846
Additions	**—**	69
End of year	**3,915**	3,915
Accumulated amortisation		
Beginning of year	**(1,664)**	(1,473)
Amortisation	**(263)**	(191)
End of year	**(1,927)**	(1,664)
Net book value		
Beginning of year	**2,251**	2,373
End of year	**1,988**	2,251

17. INVENTORIES

	Consolidated	
	2001	2000
	$'000	*$'000*
Raw materials	**9,202**	11,562
Work-in-progress	**55**	682
Finished goods	**3,863**	6,299
Less: Provision for inventory obsolescence	**(2,159)**	(2,159)
	10,961	16,384

18. ACCOUNTS RECEIVABLE, NET

The aging analysis of accounts receivable is set out below:

	Consolidated	
	2001	2000
	$'000	*$'000*
Within 90 days	**8,088**	20,743
91 — 180 days	**13,627**	14,555
181 — 365 days	**5,419**	14,391
Over 365 days	**37,058**	55,409
	64,192	105,098
Less: Provision for doubtful receivables	**(42,472)**	(58,309)
	21,720	46,789

The normal credit period granted by the Group is on average 90 days from the date of invoice.

19. RECEIVABLE FROM SUBCONTRACTOR

	Consolidated	
	2001	2000
	$'000	*$'000*
Receivable from subcontractor	**8,975**	6,067
Less: Provision for doubtful receivables	**(8,975)**	(4,551)
	—	1,516

20. INVESTMENTS IN SECURITIES

	Consolidated		Company	
	2001	2000	**2001**	2000
	$'000	*$'000*	***$'000***	*$'000*
Debt securities				
Unlisted, at carrying value	**—**	3,004	**—**	3,004
Equity securities				
Listed in Hong Kong, at carrying value	**6,926**	8,326	**6,926**	8,326
Unlisted, at carrying value	**9,586**	9,281	**—**	—
	16,512	17,607	**6,926**	8,326
Total	**16,512**	20,611	**6,926**	11,330
Quoted market value of listed investments	**6,926**	8,323	**6,926**	8,323

21. INVESTMENTS HELD FOR DISPOSAL

	Consolidated	
	2001	2000
	$'000	*$'000*
Land use rights for land located in the PRC	**18,725**	18,725
Self-constructed buildings located in the PRC	**60,978**	60,978
Less: Provision for impairment loss *(See Note 11)*	**(57,357)**	(38,329)
	22,346	41,374

22. OTHER CURRENT ASSETS

	Consolidated		Company	
	2001	2000	**2001**	2000
	$'000	*$'000*	***$'000***	*$'000*
Advances to employees	**6,017**	7,341	**—**	—
Other receivables	**17,302**	72,617	**151**	148
Less: Provision for doubtful receivables	**(9,591)**	(6,959)	**—**	—
	13,728	72,999	**151**	148

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.

23. SHARE CAPITAL

	Number of shares		Nominal value	
	2001	2000	**2001**	2000
	'000	*'000*	***$'000***	*$'000*
Authorised (ordinary shares of $0.10 each)	**1,600,000**	1,600,000	**160,000**	160,000
Issued and fully paid or credited as fully paid (ordinary 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

	2001						2000
	Share premium	**Statutory reserves**	**Contributed surplus**	**Cumulative translation adjustments**	**Accumulated losses**	**Total**	Total
	$'000	***$'000***	***$'000***	***$'000***	***$'000***	***$'000***	*$'000*
Group							
Beginning of year	**208,417**	**148,158**	**249,906**	**(69,989)**	**(273,735)**	**262,757**	378,892
Translation difference	—	—	—	—	—	—	1,089
Loss for the year	—	—	—	—	**(155,739)**	**(155,739)**	(117,224)
End of year	**208,417**	**148,158**	**249,906**	**(69,989)**	**(429,474)**	**107,018**	262,757
Company							
Beginning of year	**208,417**	—	**409,520**	—	**(353,206)**	**264,731**	381,959
Loss for the year	—	—	—	—	**(155,739)**	**(155,739)**	(117,228)
End of year	**208,417**	—	**409,520**	—	**(508,945)**	**108,992**	264,731

Under the Companies Act 1981 of Bermuda (as amended), no dividend shall be paid or distribution made out of contributed surplus if to do so would render the Company unable to pay its liabilities as they become due or the realizable value of its assets would thereby become less than the aggregate of its liabilities and its issued share capital and share premium account.

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 2001, none (2000: $56,314,000) 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**	
	2001	2000	**2001**	2000
	$'000	*$'000*	***$'000***	*$'000*
Accounts payable	**12,259**	16,735	**—**	—
Accruals	**51,648**	40,221	**623**	623
	63,907	56,956	**623**	623

All accounts payable were aged less than one year. Included in accounts payable and accruals is an amount of notes payable of approximately $2,828,000. It is secured by bank deposits of approximately $1,414,000 and mortgages over certain of the Group's land use rights and buildings included under the pledged fixed assets in Note 28.

27. PROVISION FOR WARRANTY

	Consolidated	
	2001	2000
	$'000	*$'000*
Beginning of year	**7,902**	15,379
Written back for the year	**(6,514)**	(6,690)
Utilisation	**(1,388)**	(787)
End of year	**—**	7,902

31 December 2001
(Amounts expressed in Hong Kong dollars unless otherwise stated)

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 2001, all the banking facilities were drawn down (2000: $53,932,000).

All loans (2000: $40,260,000) are secured by certain of the Group's land use rights and buildings with an aggregate carrying value of approximately $62,852,000 (2000: $49,236,000).

29. DEFERRED TAXATION

There is no significant unprovided deferred taxation.

30. COMMITMENTS

a. Capital

	Consolidated	
	2001	2000
	$'000	*$'000*
Authorised and contracted for	—	45,810

b. Operating lease

Operating lease commitments as at 31 December 2001 amounted to approximately $660,000 (2000: $300,000), of which $360,000 (2000: $300,000) 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	
	2001	2000
	$'000	*$'000*
Land and buildings		
Expiring in the first year	—	300
Expiring in the second to fifth years inclusive	**360**	—
	360	300

31. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

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

	Consolidated	
	2001	2000
	$'000	*$'000*
Loss before tax	**(163,024)**	(123,007)
Provision for impairment loss of fixed assets	**71,161**	—
Depreciation	**17,683**	25,645
(Gain) loss on disposal of fixed assets	**(4,941)**	12,750
Interest income	**(2,296)**	(4,887)
Interest expense	**3,795**	3,186
Dividend income	**(210)**	(158)
Written off of obsolete inventories	**4,908**	6,006
Provision for doubtful receivables	**20,219**	9,129
Provision for unrecoverable prepayments	—	13,955
Amortisation of other non-current assets	**263**	191
Provision for impairment in value of investment in an unconsolidated subsidiary	**1,037**	3,033
Provision for investments in associates	**5,370**	—
Share of losses of associates	**453**	—
Unrealized loss on investments in securities	**1,400**	—
Provision for impairment loss of investments held for disposal	**19,028**	6,459
Written back of provision for warranty	**(6,514)**	(6,690)
	(31,668)	(54,388)
Decrease (increase) in accounts receivable	**12,615**	(6,928)
Decrease (increase) in inventories	**515**	(787)
(Increase) decrease in receivable from subcontractor	**(2,908)**	833
Decrease in investments held for disposals	**—**	46,392
Decrease (increase) in other current assets	**54,530**	(49,564)
Increase (decrease) in provision for staff welfare and bonus	**76**	(291)
Decrease in deposits from customers	**—**	(29,978)
Increase in accounts payable and accruals	**5,563**	24,175
Net cash inflow (outflow) from operating activities	**38,723**	(70,536)

31 December 2001
(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

(b) Analysis of the balances of cash and cash equivalents:

	Consolidated	
	2001	2000
	$'000	*$'000*
Cash and bank balances	**90,562**	32,826
Short-term bank loans	**—**	(10,560)
	90,562	22,266

32. RETIREMENT SCHEMES

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Group (the employer) and its employees makes monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. The contributions from each of the employer and employees are subject to a cap of $1,000 per month and thereafter contributions are voluntary.

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 amount of contributions to the retirement schemes is as follows:

	Consolidated	
	2001	2000
	$'000	*$'000*
Employer's contribution	**1,685**	1,503

33. CONTINGENT LIABILITIES

As at 31 December 2001, the Group had issued guarantee to a bank to secure certain bank loans of approximately $7,300,000 borrowed by a subcontractor.

34. SUBSEQUENT EVENTS

On 11 January 2002, Vision Ocean Investments Limited entered into a sale and purchase agreement with Mr. Lok Fai (the then controlling shareholder and chairman of the Company as at 31 December 2001) and Sunny Fortune Limited (the then ultimate holding company of the Group as at 31 December 2001 which is beneficially owned by Mr. Lok Fai). Pursuant to the aforesaid sale and purchase agreement, which was completed on 25 January 2002, Vision Ocean holds 415,000,000 shares of the Company, representing approximately 50.91% of the total issued share capital of the Company.

Pursuant to the Hong Kong Code on Takeovers and Mergers, Vision Ocean has made an unconditional cash offer to acquire all the issued shares and outstanding options of the Company not already owned by Vision Ocean. Upon the close of the cash offer on 19 March 2002, Vision Ocean in aggregate holds 415,230,000 shares in the Company, representing approximately 50.94% of the issued share capital of the Company.

Accordingly, Vision Ocean, which is beneficially owned by Ms. Lo Yuk Yee, thereafter became the ultimate holding company of the Group. On 19 March 2002, Ms. Lo Yuk Yee was appointed as an executive director. Furthermore, on 20 March 2002, Ms. Lo Yuk Yee was elected as chairman and assumed effective control of the Company's management.

35. COMPARATIVE FIGURES

Certain of the 2000 comparative figures have been reclassified to conform to the current year's presentation. The directors consider that certain revenues previously classified as a reduction of finance cost in 2000 are more appropriate to be classified as other revenue.