

---

**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

---

**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold** all your shares in Applied International Holdings Limited, you should at once hand this circular to the purchaser or to the bank, a licensed securities dealer or other agent through whom the sale was effected for transmission to the purchaser.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

---



**實力國際集團有限公司\***

**APPLIED INTERNATIONAL HOLDINGS LIMITED**

*(Incorporated in Bermuda with limited liability)*

**MAJOR TRANSACTION**

**DISCLOSEABLE AND CONNECTED TRANSACTION**

**PROPOSED OFF-MARKET SHARE REPURCHASE  
INCIDENTAL TO THE DISPOSAL OF APPLIED (CHINA) LIMITED**

---

A letter from the independent board committee is set out on page 18 of this circular. A letter from Altus Capital Limited containing its advice to the independent board committee is set out on pages 19 to 30 of this circular.

A notice convening a special general meeting of Applied International Holdings Limited to be held at 9:45 a.m. on Wednesday, 4 February 2004 at The Kam Shan Room, The American Club, 49th Floor, Two Exchange Square, No. 8 Connaught Place, Central, Hong Kong is set out on pages 97 to 99 of this circular. Whether or not you are able to attend the special general meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return it to the principal place of business of Applied International Holdings Limited at 41st Floor, Far East Finance Centre, 16 Harcourt Road, Central, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

*\* for identification only*

12 January 2004

---

## CONTENTS

---

	<i>Page</i>
<b>DEFINITIONS</b> .....	1
<b>LETTER FROM THE BOARD</b> .....	7
<b>LETTER FROM THE INDEPENDENT BOARD COMMITTEE</b> .....	18
<b>LETTER FROM ALTUS</b> .....	19
<b>APPENDIX I – FINANCIAL INFORMATION OF THE GROUP</b> .....	31
<b>APPENDIX II – PROPERTY VALUATION OF IQUORUM</b> .....	70
<b>APPENDIX III – VALUATION REPORT OF ANTIQUE</b> .....	81
<b>APPENDIX IV – GENERAL INFORMATION</b> .....	87
<b>NOTICE OF SPECIAL GENERAL MEETING</b> .....	97

---

## DEFINITIONS

---

*In this circular, the following expressions have the following meanings unless the context requires otherwise:*

“ACL”	Applied (China) Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange;
“ACL Group”	ACL and its subsidiaries prior to completion of the Disposal;
“ACL Share(s)”	share(s) of HK\$0.01 each in the issued share capital of ACL;
“Acquisition”	the acquisition of the iQuorum Sale Shares by the Company pursuant to the Disposal Agreement;
“AIHL Group”	the Company and its subsidiaries (other than the ACL Group);
“AIHL Warrants”	warrants of the Company entitling the holders thereof to subscribe for Shares at an initial subscription price of HK\$0.48 per Share (subject to adjustment) which is exercisable at any time on or before 30 April 2004;
“Accounts Receivable”	trade and other receivables of the Assignors in the aggregate amount of HK\$1,881,677;
“acting in concert”	the meaning ascribed to it in the Takeovers Code;
“Altus”	Altus Capital Limited, a corporation deemed licensed to carry out types 1, 4, 6 and 9 regulated activities (dealing in securities, advising on securities and corporate finance and asset management) under the SFO, which has been appointed as the independent financial adviser to the Independent Board Committee in respect of the Acquisition and the Share Repurchase;
“Assignors”	iQuorum, Tronicwatch Limited, Starwin Investments Limited, China H.K. Macau Display Centre Limited and Property Tycoon Limited, all of which were wholly-owned subsidiaries of ACL as at the Latest Practicable Date;

---

## DEFINITIONS

---

“associate”	the meaning ascribed to it in the Listing Rules;
“Bank Loan”	a HK\$20,000,000 short-term loan extended by Fortis Bank Asia HK to ACL;
“Company”	Applied International Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange;
“Completion”	completion of the Sale and Purchase Deed;
“Completion Date”	date of Completion;
“Disposal Agreement”	the conditional agreement dated 1 December 2003 entered into between ACL and the Company pursuant to which, inter alia, ACL agreed to sell and the Company agreed to purchase the iQuorum Sale Shares;
“Directors”	the directors of the Company;
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director;
“Finance Lease”	all the finance leases of ACL which as at 30 June 2003 amounted to an aggregate amount of HK\$5,459,988.02;
“Group”	the Company and its subsidiaries (including the ACL Group);
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Independent Shareholders”	shareholders of the Company other than iQuorum, their respective associates and parties acting or presumed to be acting in concert with it;
“Independent ACL Shareholders”	shareholders of ACL other than the Company, its associates and parties acting or presumed to be acting in concert with it;

---

## DEFINITIONS

---

“Independent Board Committee”	the independent board committee of the Company comprising Mr. Soo Hung Leung, Lincoln, a non-executive director, appointed by the board of Directors for the purpose of advising the Independent Shareholders in respect of the Acquisition and the Share Repurchase;
“iQuorum”	iQuorum Cybernet Limited, a company incorporated in Hong Kong, and a wholly-owned subsidiary of ACL as at the Latest Practicable Date;
“iQuorum Sale Shares”	the entire issued share capital of iQuorum;
“Joint Announcement”	the joint announcement dated 5 December 2003 made by the Company, ACL and the Offeror in relation to, among other things, the Sale and Purchase Deed, the Disposal Agreement and the Offers;
“Latest Practicable Date”	9 January 2004, being the latest practicable date prior to the printing of this circular for ascertaining certain information for inclusion in this circular;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Offers”	the possible mandatory unconditional cash offers that are required to be made following and subject to Completion by Quam Securities Company Limited on behalf of the Offeror on the terms and subject to the conditions referred to in the Joint Announcement and to be set out in the Offer Document to acquire all the ACL Shares at HK\$0.1427 per ACL Share and to acquire all the outstanding Warrants at a cash price of HK\$0.001 per Warrant (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it);
“Offer Document”	the document to be issued by or on behalf of the Offeror (if the Offers are required) to the shareholders of ACL and the Warrantholders in accordance with the Takeovers Code containing, among other things, details of the Offers and the related acceptance and transfer forms;

---

## DEFINITIONS

---

“Offeror”	MACRO-LINK International Investment Co, Ltd., a company incorporated in the British Virgin Islands with limited liability;
“Ongoing Transaction”	the manufacture by Quorum Bio-Tech China of, and the sale of Quorum Bio-Tech China to Quorum Global of, some of its Chinese herbal supplements and nutritional products for overseas distribution via Quorum Global, which prior to Completion, constitute connected transactions of ACL for the purposes of the Listing Rules and which will continue after Completion;
“Outgoing Group”	iQuorum and its subsidiaries as at the Latest Practicable Date (excluding Panorama Limited, Sharp Win (Holdings) Limited, Sharp Win Industrial Limited, Sheen, RJP Finance Limited, Workplace Logistics Limited and Quorum Bio-Tech Limited), which will cease to be subsidiaries of ACL after completion of the Disposal;
“PRC”	People’s Republic of China;
“Quam Capital”	Quam Capital Limited, a corporation deemed licensed under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) to conduct types 4, 6 and 9 regulated activities and the financial adviser to the Offeror;
“Quorum Bio-Tech China”	天健生物(深圳)有限公司, a company established in the PRC, which is a wholly-owned subsidiary of ACL;
“Quorum Global”	Quorum Global Limited, a company incorporated in Hong Kong and which is a wholly-owned subsidiary of the Company;
“Remaining Group”	ACL, Panorama Limited, Sharp Win (Holdings) Limited, Sharp Win Industrial Limited, Sheen, RJP Finance Limited, Workplace Logistics Limited and Quorum Bio-Tech China;
“Repurchase Shares”	the 48,329,000 Shares taken to be repurchased by the Company pursuant to the Share Repurchase by virtue of the Company acquiring the iQuorum Sale Shares and which represent approximately 5.14% of the entire issued share capital of the Company;

---

## DEFINITIONS

---

“Repurchase Warrants”	the 9,665,800 AIHL Warrants taken to be repurchased by the Company by virtue of the Company acquiring the iQuorum Sale Shares and which, if exercised in full (at the current exercise price), will result in the issue of 9,665,800 additional Shares which will represent approximately 1.03% of the entire issued share capital of the Company;
“SFC”	the Securities and Futures Commission of Hong Kong;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“SGM”	the special general meeting of the Company to be held at 9:45 a.m. on Wednesday, 4 February 2004 at The Kam Shan Room, The American Club, 49th Floor, Two Exchange Square, No. 8 Connaught Place, Central, Hong Kong , notice of which is set out on pages 98 to 99 of this circular;
“Sale”	the sale of the ACL Shares by the Company pursuant to the Sale and Purchase Deed;
“Sale Shares”	861,887,920 ACL Shares to be sold by the Company pursuant to the Sale and Purchase Deed;
“Sale and Purchase Deed”	the conditional deed for, inter alia, the sale and purchase of the Sale Shares dated 1 December 2003 entered into between the Offeror, the Company and Mr. Hung Kin Sang, Raymond;
“Share Repurchase”	the proposed off-market repurchase by the Company of the Repurchase Shares incidental to the Sale;
“Share Repurchase Announcement”	the announcement dated 5 January 2004 made by the Company in relation to the Share Repurchase incidental to the disposal of ACL;
“Share Repurchase Code”	the Hong Kong Code on Share Repurchases;
“Shares”	ordinary shares of HK\$0.20 each in the Company;

---

## DEFINITIONS

---

“Shareholders”	the shareholder(s) of the Company;
“Sheen”	Sheen Champion Holdings Limited, a wholly-owned subsidiary of ACL;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers;
“Warrants”	warrants of ACL conferring rights to holders thereof at an initial subscription price of HK\$1.00 per ACL Share (subject to adjustment) which is exercisable at any time on or before 30 April 2004;
“Warrantholders”	holders of outstanding warrants issued by ACL.



---

**LETTER FROM THE BOARD**

---



**APPLIED INTERNATIONAL HOLDINGS LIMITED**

*(incorporated in Bermuda with limited liability)*

*Executive Directors:*

Mr. Hung Kin Sang, Raymond  
*(Chairman and Managing Director)*  
Mrs. Hung Wong Kar Gee, Mimi  
Mr. Fang Chin Ping

*Registered Office:*

Canon's Court  
22 Victoria Street  
Hamilton HM 12  
Bermuda

*Non-executive Directors:*

Mr. Soo Hung Leung, Lincoln

*Principal place of business  
in Hong Kong:*

41st Floor  
Far East Finance Centre  
16 Harcourt Road  
Central  
Hong Kong

*Independent Non-executive Directors:*

Mr. Lo Yun Tai  
Mr. Lun Tsan Kau

12 January 2004

*To the Shareholders*

**MAJOR TRANSACTION  
DISCLOSEABLE AND CONNECTED TRANSACTION  
AND  
PROPOSED OFF-MARKET SHARE REPURCHASE  
INCIDENTAL TO THE DISPOSAL OF APPLIED (CHINA) LIMITED**

Dear Sir/Madam,

**INTRODUCTION**

**The Sale and Purchase Deed**

The Company announced in the Joint Announcement that, on 1 December 2003, the Offeror had entered into the Sale and Purchase Deed with, amongst others, the Company pursuant to which, inter alia, the Offeror conditionally agreed to acquire from the Company 861,887,920 ACL Shares, representing approximately 74.99% of the existing issued share

---

## LETTER FROM THE BOARD

---

capital of ACL for an aggregate consideration of HK\$123 million (i.e. equivalent to HK\$0.1427 per ACL Share). The purchase price for the Sale Shares was determined by the Company and the Offeror after arm's length negotiations. Completion is conditional upon the fulfilment or waiver of certain conditions. The Sale constitutes a major transaction for the Company under the Listing Rules and is conditional upon the approval of the Shareholders at a general meeting of the Company.

Following and subject to Completion, Quam Securities Company Limited will, on behalf of the Offeror, make mandatory unconditional cash offers on the terms and subject to the conditions referred to in the Joint Announcement and to be set out in the Offer Document to acquire all the ACL Shares (other than those already owned by the Offeror and parties acting in concert with it) at HK\$0.1427 per ACL Share and to acquire all the outstanding Warrants (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it) at a cash price of HK\$0.001 per Warrant.

### **The Disposal Agreement**

The Company further announced in the Joint Announcement that, on 1 December, 2003, the Company entered into the Disposal Agreement with ACL pursuant to which, among other things, the Company agreed to acquire and ACL agreed to dispose of the iQuorum Sale Shares, representing the entire interest in iQuorum held by ACL. The Acquisition constitutes a discloseable and connected transaction for the Company under the Listing Rules and a special deal under Rule 25 of the Takeovers Code. Accordingly, the Acquisition is conditional upon the approval of the Independent Shareholders and the Independent ACL Shareholders. As Mr. Hung Kin Sang, Raymond, Mrs. Hung Wong Kar Gee, Mimi and Mr. Fang Chin Ping are also directors of ACL and are presumed to be acting in concert with ACL, they will abstain from voting on the Acquisition. Mr. Soo Hung Leung, Lincoln intends to vote in favour of the Acquisition.

As iQuorum is interested in 48,329,000 Shares and 9,665,800 AIHL Warrants, representing approximately 5.14% and, if the 9,665,800 AIHL Warrants are exercised in full (at the current exercise price) will result in the issue of 9,665,800 additional Shares which will represent approximately 1.03% of the entire issued share capital of the Company respectively, the SFC has indicated its position that the Company will be taken to have repurchased the Repurchase Shares and the Repurchase Warrants by virtue of its purchase of the iQuorum Sale Shares pursuant to the Disposal Agreement and that the Share Repurchase is subject to the rules set out in the Share Repurchase Code. Accordingly, the Company has applied for the Executive's approval under Rule 2 of the Share Repurchase Code regarding the Share Repurchase.

The purpose of this circular is to give you further information regarding the Sale and Purchase Deed, the Disposal Agreement and the Share Repurchase, to set out the opinion of Altus and the recommendation of the Independent Board Committee in respect of the

---

## LETTER FROM THE BOARD

---

Acquisition and the Share Repurchase, and to give notice to the Shareholders of the SGM, at which resolutions will be proposed to consider and, if thought fit, approve the Sale, the Acquisition and the Share Repurchase.

### **THE SALE AND PURCHASE DEED DATED 1 DECEMBER 2003**

The Sale and Purchase Deed was entered into between the Company, the Offeror and Mr. Hung Kin Sang, Raymond (as guarantor in respect of the performance of the obligations of the Company). Pursuant to it, inter alia, the Company agreed to sell and the Offeror agreed to purchase 861,887,920 ACL Shares representing approximately 74.99% of the Company's entire interest in ACL. Following Completion, the Company will hold no interest in ACL.

#### **Consideration**

The consideration under the Sale and Purchase Deed payable by the Offeror amounts to HK\$123 million in aggregate payable in cash (i.e., equivalent to HK\$0.1427 per ACL Share). The purchase price for the Sale Shares was determined by the Company and the Offeror after arm's length negotiations with reference to the market price of the Sale Shares and was agreed between the Company and the Offeror as a matter of commercial decision.

#### **Use of Proceeds**

The net proceeds from the disposal of the Sale Shares amount to approximately HK\$120.5 million and approximately HK\$51.4 million will be used by the Company to settle the consideration under the Disposal Agreement with the remaining amount of approximately HK\$69.1 million to be used for general working capital purposes.

#### **Conditions**

Completion of the Sale and Purchase Deed is conditional upon, among other things:

- (a) ACL having at least HK\$30 million cash before Completion, free from any encumbrance, third-party rights or claims of any kind and may be at the disposal of ACL freely and at any time, and ACL having, immediately after Completion, at least HK\$81 million cash (after deducting all professional and other fees and expenses payable by ACL relating to, among other things, the Sale and Purchase Deed and the Disposal Agreement) (the "Free Cash Amount"), free from any encumbrance, third-party rights or claims of any kind and may be at the disposal of ACL freely and at any time;
- (b) ACL not having any material financial liability (including, but without limiting the generality of the foregoing, no event has taken place nor has there been any act or omission on the part of the Company or any member of the ACL Group, prior to completion of the Disposal Agreement that will result in the creation of an obligation on the part of ACL or a reduction in the Free Cash Amount);

---

## LETTER FROM THE BOARD

---

- (c) it being apparent that ACL will, immediately after Completion, have the Free Cash Amount, which will be free from any liens, mortgages, charges, encumbrances or other third party rights and, in addition but without limiting the generality of the foregoing, each member of the Remaining Group having good and marketable title to (with full power to sell) all property and assets of the relevant member of the Remaining Group, which are free from any liens, mortgages, charges, encumbrances or other third party rights (other than those arising by operation of law without default on the part of the relevant member of the Remaining Group);
- (d) there being no guarantee or indemnity or other security provided or given to any person by any member of the Remaining Group, irrespective of whether such guarantee, indemnity or other security is given in respect of the performance of the obligations of any other member of the Remaining Group or otherwise;
- (e) no member of the Remaining Group nor any person for whose acts or defaults it may be vicariously liable is or are engaged whether as plaintiff or defendant or otherwise in any material proceedings and there are no facts which are likely to give rise to any material proceedings or litigation;
- (f) completion of the Acquisition;
- (g) the unaudited financial statements of each member of the Remaining Group as at 31 October 2003, and for the period from 1 July 2003 to 31 October 2003 not having revealed that there has been a material change in the financial position of the Remaining Group since 30 June 2003;
- (h) the passing by the Independent ACL Shareholders in a general meeting of an ordinary resolution approving the Disposal Agreement and the transactions contemplated thereunder in accordance with the requirements of the Listing Rules, the Takeovers Code, its memorandum of association and bye-laws and as required by law and a special resolution approving the change of ACL's name to a name which does not include the word "Applied" in accordance with the requirements of its memorandum of association and bye-laws and as required by law;
- (i) the consent of the Executive in relation to the Disposal Agreement and the transactions contemplated thereunder as a "special deal" under Rule 25 of the Takeovers Code and having been obtained;
- (j) the current listing of the ACL Shares not having been withdrawn, the ACL Shares continuing to be traded on the Stock Exchange prior to the Completion Date (save for any temporary suspension pending any announcement in connection with the Sale and Purchase Deed) and neither the Stock Exchange nor the SFC having indicated that either one of them will object to such continued listing for reasons related to or arising from the transactions contemplated under the Sale and Purchase Deed;

---

## LETTER FROM THE BOARD

---

- (k) the release, or assumption by the Company, of all guarantees given by any member of the Remaining Group in favour of third parties in respect of the performance of the obligations of any of the Company, any member of the Outgoing Group, any of the directors or officers of any member of the Outgoing Group or their respective associates;
- (l) the repayment in full of all loans or other indebtedness due or owing to any member of the Remaining Group by the Company or the directors of ACL or their respective associates or any member of the Outgoing Group;
- (m) the termination of all arrangements and agreements between any member of the Remaining Group on the one hand and the Company or any of its associates or any member of the Outgoing Group on the other hand (including, without prejudice to the generality of the foregoing, all agreements between any of such parties relating to the management of any member of the Remaining Group but save for the Disposal Agreement and the Ongoing Transaction and any arrangement or agreement (as the case may be) between any member of the Remaining Group, on the one hand, and the Company or any of its associates or any member of the Outgoing Group, on the other hand, which is expressly agreed by the Offeror and the Company), in each case, with effect from the Completion Date by mutual agreement of the respective parties thereto without further liability on any party thereto save in respect of any antecedent breaches by the Company or any of its associates or any member of the Outgoing Group; and
- (n) termination of any agreement or arrangement relating to the affairs of any member of the Remaining Group between the Company or any of its associates or any member of the Outgoing Group, on the one hand, and any officer or employee of any member of the Remaining Group, on the other hand, in each case, with effect from the Completion Date and prior to Completion by mutual agreement of the respective parties thereto without further liability on any party thereto save in respect of any antecedent breaches by the Company or any of its associates or any member of the Outgoing Group.

### **Completion**

Completion is expected to take place on the third business day from and excluding the day on which the last of the conditions (other than the conditions set out in paragraph (a) to (f) and (j) to (m) above), which must be satisfied or waived (as the case may be) immediately prior to Completion, and the condition set out in paragraph (j) above, which must be satisfied or waived (as the case may be) prior to Completion. In the event that the conditions of the Sale and Purchase Deed are not satisfied or waived (as the case may be) on or before the date falling 90 days after the date of the Sale and Purchase Deed (i.e. 29 February 2004) (or such other date as the Company and the Offeror may agree in writing), the Sale and Purchase Deed will cease to have any effect and no party will have any liability under it save for antecedent breaches of the Sale and Purchase Deed.

---

## LETTER FROM THE BOARD

---

### **Reasons for disposal of the Sale Shares**

The Directors intend the Company to be more focused on its existing businesses in overseas marketing and distribution of electronic and healthcare products and property investment and development. At the request of the Offeror and as a commercial decision reached between the Company and the Offeror, the Company has entered into the Sale and Purchase Deed with the Offeror to dispose of the Sale Shares.

It is estimated that a gain for the AIHL Group of HK\$32.43 million will be recognised on the disposal of the Sale Shares.

### **THE DISPOSAL AGREEMENT DATED 1 DECEMBER 2003**

The Disposal Agreement was entered into between the Company and ACL pursuant to which, inter alia, ACL agreed to sell and the Company agreed to purchase the entire issued share capital of iQuorum. Following completion of the Disposal Agreement, ACL will have no further interest in iQuorum.

### **Consideration**

The consideration payable by the Company for the iQuorum Sale Shares is HK\$51,405,065. The consideration will be satisfied by the Company by the issue of a promissory note by the Company in favour of ACL upon completion of the Disposal Agreement, which will be satisfied by the Company in cash in full out of the sale proceeds of the Sale Shares upon Completion. The consideration was determined on the basis of the net asset value of the Outgoing Group as at 30 June 2003 and with reference to a valuation report dated 12 January 2004 prepared by an independent valuation firm in respect of the properties of the ACL Group conducted on an open market value basis as at 31 October 2003, which is set out in Appendix II to this circular.

### **Accounts Receivable, Bank Loan and Finance Lease**

Under the Disposal Agreement, ACL shall procure that the Assignors will assign the Accounts Receivable to the Company immediately prior to completion of the Disposal Agreement, and such assignment shall be for an aggregate consideration of HK\$1,881,677 payable by the Company to the Assignors, which will be satisfied by the Company out of the proceeds from completion of the Sale. The Company will in turn assign to Sheen the Accounts Receivable for nil consideration, and the assignment will take effect at completion of the Disposal Agreement.

The Company will procure that, prior to completion of the Disposal Agreement, no member of the Remaining Group has any liability in respect of the Bank Loan and the Finance Lease.

---

## LETTER FROM THE BOARD

---

### Use of proceeds

The estimated net proceeds from the disposal of the iQuorum Sale Shares amount to approximately HK\$51.4 million and will be used by the ACL Group as general working capital purposes.

### Conditions

As the Company is a substantial shareholder of ACL and ACL is a non-wholly owned subsidiary of the Company, each of the Company and ACL is a connected person of the other under the Listing Rules. The Acquisition constitutes a discloseable and connected transaction for the Company and a special deal under Rule 25 of the Takeovers Code and requires consent from the Executive. The resolution to approve the Disposal Agreement will be voted on by the Independent ACL Shareholders by way of poll and the Company and its associates and parties acting or presumed to be acting in concert with it will abstain from voting on that resolution.

The Disposal Agreement is conditional upon:

- (a) the passing by the Independent ACL Shareholders in a general meeting of resolutions approving, amongst others, the Disposal Agreement and the sale of the iQuorum Sale Shares; and
- (b) the passing by such shareholders of the Company as may be permitted under the Listing Rules to vote in a general meeting of resolutions approving the Disposal Agreement and the Acquisition.

Completion of the Acquisition is not subject to but will take place immediately prior to completion of the Sale and Purchase Deed.

In the event that the conditions of the Disposal Agreement are not fulfilled on or before the date falling 90 days after the date of the Sale and Purchase Deed (i.e. 29 February 2004) (or such other date as ACL and the Company may agree in writing), then the Disposal Agreement will be terminated without further liability of any party to the other, save for antecedent breaches of the Disposal Agreement.

Completion of the Acquisition will be immediately followed by completion of the Sale. Whilst completion of the Acquisition is not conditional upon completion of the Sale, the Company and ACL have mutually confirmed to each other in writing to terminate or otherwise renegotiate the terms of the Disposal Agreement so that the Acquisition will not proceed in the unlikely event that the Sale is not completed. The Company and ACL will take appropriate actions to ensure that the Listing Rules are fully complied with.

---

## LETTER FROM THE BOARD

---

### Reasons for the Disposal

The AIHL Group (other than the ACL Group) is involved in the business of design, manufacture, marketing and distribution of consumer electronic products and property investment and development.

The ACL Group (other than the Outgoing Group) is principally engaged in the manufacture and trading of electronic and healthcare products. During the financial year ended 30 June 2003, the ACL Group started manufacturing Chinese herbal products including Lingzhi, Cordyceps, Yunzhi and other herbal supplements for sale to health distribution centres in the PRC and to the Company for overseas distribution. It is intended that the Company will remain a customer of ACL after completion of the Acquisition through the Ongoing Transaction.

iQuorum is, at present, an investment holding company and its subsidiaries are involved in investment in properties in Hong Kong and antiques.

The unaudited combined net loss before and after taxation and extraordinary items of the Outgoing Group were approximately HK\$28,937,400 and approximately HK\$29,096,100 respectively for the financial year ended 30 June 2002. The unaudited combined net loss before and after taxation and extraordinary items of the Outgoing Group were approximately HK\$156,809,600 and HK\$160,209,600 respectively for the financial year ended 30 June 2003. The unaudited proforma net asset value of the Outgoing Group as at 30 June 2003 was approximately HK\$51,405,000.

The major assets of the Outgoing Group include investment properties, plant and equipment, and investments in antique and Shares of the Company. The major liabilities of the Outgoing Group include bank borrowings and trade and tax payables.

The audited consolidated net loss before and after taxation of the ACL Group were approximately HK\$32,290,572 and approximately HK\$32,449,372 respectively for the financial year ended 30 June 2002. The audited consolidated net loss before and after taxation of the ACL Group were approximately HK\$163,829,314 and HK\$167,229,314 respectively for the financial year ended 30 June 2003. The audited consolidated net asset value of the ACL Group as at 30 June 2003 was approximately HK\$117,445,865.

The unaudited combined net loss before and after taxation of the Remaining Group were approximately HK\$3,353,172 and approximately HK\$3,353,172 respectively for the financial year ended 30 June 2002. The unaudited combined net loss before and after taxation of the Remaining Group were approximately HK\$7,019,714 and HK\$7,019,714 respectively for the financial year ended 30 June 2003. The unaudited proforma net asset value of the Remaining Group as at 30 June 2003 was approximately HK\$117,445,865.



---

## LETTER FROM THE BOARD

---

A realignment of businesses between the Company and ACL prior to Completion was considered so that ACL will focus on the business of manufacturing and trading of electronic products and healthcare products in the PRC and the Company will focus on overseas marketing and distribution of electronic and healthcare products and property investment and development in Hong Kong, PRC and overseas and to that end the Company will, prior to Completion, acquire iQuorum, and in turn, the other members of the Outgoing Group. The board of the Company considers that the Acquisition is in the interest of the Company as (a) the market prices of the properties in Hong Kong are at their lowest level for many years and it is generally expected that they have stabilised and are likely to recover thereby allowing the Company to benefit; (b) there has been an increasing awareness and interest in the antique business in general, it is expected by the Company that the market for antiques will recover from its current depressed state as the Hong Kong economy improves; and (c) the Acquisition is in line with one of its principal activities of property and investment holding and property development and will enable the Company to acquire full control over its present office premises, other landed properties and antiques which are currently held by the Outgoing Group.

After completion of the Acquisition, iQuorum will become a wholly-owned subsidiary of the Company. It is also estimated that the Acquisition will not have any effect on the earnings or assets and liabilities of the Company.

### **Proposed Off-Market Share Repurchase by virtue of the Acquisition**

As iQuorum is interested in 48,329,000 Shares and 9,665,800 AIHL Warrants, representing approximately 5.14% and, if the AIHL Warrants are exercised in full (at the current exercise price) will result in the issue of 9,665,800 additional Shares which will represent approximately 1.03% of the entire issued share capital of the Company respectively, the SFC has indicated that the Company will be taken to have repurchased the Repurchase Shares and the Repurchase Warrants by virtue of its purchase of the iQuorum Sale Shares pursuant to the Disposal Agreement and that the Share Repurchase is subject to the rules set out in the Share Repurchase Code.

The Share Repurchase constitutes an off-market repurchase by the Company and is subject to grant of an approval by the Executive pursuant to Rule 2 of the Share Repurchase Code which is conditional upon, among other things, the approval of the Share Repurchase by at least three-fourths of the votes cast on a poll by the Independent Shareholders in attendance in person or by proxy at the SGM.

The Repurchase Shares and the Repurchase Warrants represent approximately HK\$2.71 million and HK\$96,658 respectively of the unaudited net tangible asset value of the Outgoing Group (excluding minority interests) as at 30 June 2003 and are reflective of the market values of the Shares and the AIHL Warrants as at 30 June 2003 respectively. The negotiation for the acquisition of the iQuorum Sale Shares took no particular account of the value of the

---

## LETTER FROM THE BOARD

---

Repurchase Shares and the Repurchase Warrants but were by reference to the net asset value of the Outgoing Group as at 30 June 2003. The Outgoing Group has many assets other than the Repurchase Shares and the Repurchase Warrants. No part of the price payable for the iQuorum Sale Shares is directly referable to the value of the Repurchase Shares and the Repurchase Warrants.

The Share Repurchase does not contravene and is not in conflict with any applicable laws of Bermuda. The Company has not decided what it intends to cause iQuorum to do with the Repurchase Shares and the Repurchase Warrants, if anything. There is no change to the shareholding structure of the Company and the public float of the Shares prior and subsequent to the Share Repurchase, which is and will remain at approximately 50.3%.

### **POSSIBLE UNCONDITIONAL CASH OFFERS**

Following and subject to Completion, the Offeror and parties acting in concert with it will own approximately 74.99% of the entire issued share capital of ACL (assuming that ACL's issued share capital remains unchanged from that as at the Latest Practicable Date). As a result, the Offeror will be obliged under Rule 26 of the Takeovers Code to make mandatory unconditional cash offers for all the issued ACL Shares and the outstanding Warrants (other than those already owned by the Offeror and parties acting in concert with it). Save for the 114,926,182 outstanding Warrants, which are exercisable at any time on or before 30 April 2004 and which, if exercised in full, will result in the issue of an additional 114,926,182 ACL Shares (based on the current exercise price of the Warrants), ACL had no outstanding convertible securities, warrants or options as at the Latest Practicable Date.

The Offers will be set out in the Offer Document.

### **GENERAL**

The Sale constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is subject to disclosure and Shareholders' approval requirements.

The Acquisition constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules. As ACL is a 74.99% owned subsidiary of the Company, the Acquisition also constitutes a connected transaction for the Company under Chapter 14 of the Listing Rules and is subject to disclosure and Independent Shareholders' approval requirements.

The Company has applied for the Executive's approval under Rule 2 of the Share Repurchase Code regarding the Share Repurchase, which is conditional upon, among other things, the approval of the Share Repurchase by at least three-fourths of the votes cast on a poll by the Independent Shareholders in attendance in person or by proxy at the SGM.

---

## LETTER FROM THE BOARD

---

### RECOMMENDATION

The Directors believe that the Sale is in the best interests of the Company and the Shareholders as a whole and recommend the Shareholders to vote in favour of resolution no. 1 set out in the notice of the SGM.

The Independent Board Committee, having taken into account the advice of Altus, considers that the Acquisition and the Share Repurchase are in the interests of the Company and the Independent Shareholders as a whole and recommend the Independent Shareholders to vote in favour of resolutions no. 2 and no. 3 set out in the notice of the SGM.

### SPECIAL GENERAL MEETING

A notice convening the SGM to be held at 9:45 a.m. on Wednesday, 4 February 2004 at The Kam Shan Room, The American Club, 49th Two Exchange Square, No. 8 Connaught Place, Central, Hong Kong is set out on pages 97 to 99 of this circular for the purpose of considering and, if thought fit, passing the resolutions in relation to the Sale and Purchase Deed, the Disposal Agreement and the Share Repurchase.

You will find enclosed a form of proxy for use at the SGM. Whether or not they are able to attend such meeting, Shareholders are advised to read the notice and complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's principal place of business in Hong Kong at 41st Floor, Far East Finance Centre, 16 Harcourt Road, Central, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding such meeting. Completion and return of the form of proxy will not preclude Shareholders from attending and voting in person at the meeting or any adjourned meeting thereof if they so wish.

### ADDITIONAL INFORMATION

Your attention is drawn to the additional information contained in the Appendices hereto.

Yours faithfully  
For and on behalf of  
**Applied International Holdings Limited**  
**Hung Kin Sang, Raymond**  
*Chairman and Managing Director*



**APPLIED INTERNATIONAL HOLDINGS LIMITED**

*(incorporated in Bermuda with limited liability)*

12 January 2004

*To the Independent Shareholders*

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION**

I have been appointed as the independent board committee to advise you in connection with the Acquisition and the Share Repurchase, details of which are set out in the “Letter from the Board” in the circular dated 12 January 2004 (the “Circular”), of which this letter forms a part. The terms used in this letter shall have the same meanings as given to them in the Circular unless the context otherwise requires.

Having considered the terms of the Acquisition and the Share Repurchase and the advice and opinion of Altus Capital Limited in relation thereto as set out on pages 19 to 30 of the Circular, I am of the opinion that the terms of the Acquisition and the Share Repurchase are fair and reasonable so far as the Independent Shareholders are concerned and the Acquisition and the Share Repurchase are in the interests of the Company and its Shareholders. I therefore recommend that you vote in favour of the ordinary resolution regarding the approval of the Acquisition and the special resolution regarding approval of the Share Repurchase as set out in the notice of the SGM contained in the Circular.

Yours faithfully,  
**Independent Board Committee**  
**Soo Hung Leung, Lincoln**  
*Non-executive Director*

---

## LETTER FROM ALTUS

---

*The following is the full text of the letter of advice from Altus to the Independent Board Committee prepared for inclusion in this Circular.*

**ALTUS CAPITAL LIMITED**  
8/F Hong Kong Diamond Exchange Building  
8 Duddell Street  
Central  
Hong Kong

12 January 2004

*The Independent Board Committee*  
**Applied International Holdings Limited**  
41st Floor, Far East Finance Centre  
16 Harcourt Road  
Central  
Hong Kong

Dear Sirs,

**DISCLOSEABLE AND CONNECTED TRANSACTION  
AND PROPOSED OFF-MARKET SHARE REPURCHASE  
INCIDENTAL TO THE DISPOSAL OF APPLIED (CHINA) LIMITED**

### INTRODUCTION

We refer to the circular to Shareholders dated 12 January 2004 (the “Circular”) issued by the Company of which this letter forms part and to our appointment as independent financial adviser to the Independent Board Committee in relation to the discloseable and connected transaction and the proposed off-market share repurchase incidental to the disposal of Applied (China) Limited, details of which are set out in the Letter from the Board contained in this Circular. Capitalised terms used in this letter shall have the same meanings ascribed to them in the Circular unless the context otherwise requires.

On 1 December 2003, the Company entered into the Disposal Agreement with ACL pursuant to which, among other things, ACL has agreed to dispose of, and the Company has agreed to acquire, the iQuorum Sale Shares which represented the entire interest in iQuorum held by ACL. The Acquisition constitutes a discloseable and connected transaction for the Company under the Listing Rules and a special deal under Rule 25 of the Takeovers Code. Accordingly, the Acquisition is conditional upon (a) the passing by the Independent ACL Shareholders in a general meeting of resolutions approving, among other things, the Disposal Agreement; and (b) the passing by the Independent Shareholders as may be permitted under the Listing Rules to vote in a general meeting of resolutions approving the Acquisition and the Share Repurchase.

---

## LETTER FROM ALTUS

---

As iQuorum is interested in 48,329,000 Shares and 9,665,800 AIHL Warrants, representing approximately 5.14% and 1.03% respectively of the entire issued share capital of the Company, the SFC has indicated its position that the Company will be taken to have repurchased approximately 5.14% of its own shares (the “Repurchase Shares”) and 1.03% of its own warrants (the “Repurchase Warrants”) by virtue of the Acquisition pursuant to the Disposal Agreement and that the Share Repurchase is subject to the rules set out in the Share Repurchase Code. Accordingly, the Company has applied for the Executive’s approval under Rule 2 of the Share Repurchase Code regarding the Share Repurchase.

The executive Directors of the Company are Mr. Hung Kin Sang, Raymond, who is also the chairman and managing director of the Company, Ms. Hung Wong Kar Gee, Mimi, and Mr. Fang Chin Ping and all of the executive Directors are salaried employees of the Company. We consider that Mr. Hung Kin Sang, Raymond, Ms. Hung Wong Kar Gee, Mimi and Mr. Fang Chin Ping, who are also directors of ACL, will not be eligible to be members of the Independent Board Committee as they are not considered to be independent under the Takeovers Code and the Listing Rules in respect of the Acquisition. Mr. Lo Yun Tai and Mr. Lun Tsan Kau are independent non-executive directors of both the Company and ACL; therefore, the Independent Board Committee comprises Mr. Soo Hung Leung, Lincoln (who is a non-executive Director and has no interest in the Acquisition) as only he is considered to be independent in relation to the Acquisition.

Altus has been appointed by the Company to advise the Independent Board Committee on the fairness and reasonableness of the terms of the Disposal Agreement and the Share Repurchase so far as the interests of the Independent Shareholders are concerned.

### **BASIS OF OUR OPINION**

In formulating our opinion, we have relied to a considerable extent on the information, statements, opinion and representations supplied to us by the Company and the Directors and we have assumed that all such information, statements, opinions and representations contained or referred to in the Circular were true and accurate and complete at the time they were made and continue to be true at the date of the Circular, and we have relied on the same. We have also assumed that all statements of belief, opinion and intention of the Directors as set out in the Letter from the Board in this Circular were reasonably made after due and careful inquiry. We have also sought and obtained confirmation from the Company that no material facts have been omitted from the information provided and referred to in the Circular. We have also discussed with the management of the Group regarding their plans for the Group and the prospects of the businesses of the AIHL Group.

We consider that we have been provided with, and we have reviewed, all currently available information and documents which are available to enable us to reach an informed view regarding the Acquisition and the Share Repurchase and to justify reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis of our opinion. We have no reason to suspect that any material facts or information (which is known to the

---

## LETTER FROM ALTUS

---

Company) have been omitted or withheld from the information supplied or opinions expressed in the Circular nor to doubt the truth and accuracy of the information and facts, or the reasonableness of the opinions expressed by the Company and the Directors which have been provided to us. We have not, however, carried out any independent verification on the information provided to us by the Directors, nor have we conducted an independent in-depth investigation into the business and affairs of the Group.

### **PRINCIPAL FACTORS CONSIDERED IN RELATION TO THE ACQUISITION**

In arriving at our recommendation in relation to the Acquisition, we have taken into account the following principal factors:

#### **1. Background of and reasons for the Acquisition**

The Company is an investment holding company and, together with its subsidiaries, is principally engaged in the design, manufacturing, marketing and distribution of consumer electronic products and property investment and development. The ACL Group is principally engaged in the manufacturing and trading of electronic and healthcare products. During the financial year ended 30 June 2003, the ACL Group started manufacturing Chinese herbal products and herbal supplements for sale to health distribution centres in the PRC and to the Company for overseas distribution. iQuorum is wholly-owned by ACL and, together with its subsidiaries, are involved in the investments in real estate properties in Hong Kong, antiques as well as the Repurchase Shares and the Repurchase Warrants. iQuorum and a number of its subsidiaries, namely, the Outgoing Group, will cease to be subsidiaries of ACL after completion of the Acquisition. As stated in the Letter from the Board, the Directors are of the view that the Acquisition is in line with one of the AIHL Group's principal activities, namely, property and investment holding and property development.

Pursuant to the Disposal Agreement, ACL will procure that the Assignors will assign the Accounts Receivable to the Company immediately prior to completion of the Acquisition for an aggregate consideration of approximately HK\$1,881,677 payable by the Company to the Assignors. The Company will then, at completion of the Acquisition, re-assign to Sheen the Accounts Receivable for nil consideration. Accordingly, the aggregate effective consideration payable by the Company under the Disposal Agreement for the Acquisition will be HK\$53,286,742.

Completion of the Sale is conditional upon completion of the Acquisition. The Acquisition will also lead to a realignment of businesses between the AIHL Group and the ACL Group such that (i) the Company would acquire the Outgoing Group and focus on overseas marketing and distribution of electronic and healthcare products and property investment and development in Hong Kong, the PRC and overseas; and (ii) the ACL Group would focus on the business of manufacturing and trading of electronic products and healthcare products in the PRC.

---

## LETTER FROM ALTUS

---

We concur with the Directors' view that the Acquisition will help the realignment of the businesses of the AIHL Group and the ACL Group. In addition, we note that the Acquisition is a condition to, and therefore facilitates, the completion of the Sale, the cash proceeds from which will increase the cash balance of the AIHL Group by approximately HK\$67.2 million. The financial effects of the Acquisition are further considered in the section headed "Financial effects of the Acquisition on the AIHL Group" below.

### **2. Financing of the Acquisition**

Pursuant to the Disposal Agreement, completion of the Acquisition will take place immediately prior to completion of the Sale. The total consideration payable by the Company pursuant to the Disposal Agreement is HK\$53,286,742, of which HK\$51,405,065, being the consideration for the entire issued share capital of iQuorum, will be satisfied by the issuance of a promissory note by the Company in favour of ACL, and the remaining balance of HK\$1,881,677, being the consideration for the Accounts Receivable, will be payable in cash to ACL. The Company will repay the amount owing under the promissory note and satisfy the consideration for the Accounts Receivable out of the proceeds from completion of the Sale and will not be required to fund the Acquisition by its internal funds.

Completion of the Acquisition will be immediately followed by completion of the Sale. Whilst completion of the Acquisition is not conditional upon completion of the Sale, the Directors have confirmed to us that the Company and ACL have mutually confirmed to each other in writing to terminate the Acquisition or otherwise renegotiate the terms of the Disposal Agreement so that the Acquisition will not proceed in the unlikely event that the Sale is not completed. The Company and ACL will take appropriate actions to ensure that the Listing Rules are fully complied with.

### **3. Consideration**

#### *(i) Comparison with valuations*

The consideration for the entire issued share capital of iQuorum is HK\$51,405,065 which was determined on the basis of the proforma unaudited combined net asset value of the Outgoing Group as at 30 June 2003, and with reference to a property valuation report prepared by RHL Appraisal Ltd. and a valuation of the antiques at their recoverable amounts which were determined by reference to the market selling price of similar antiques as at 30 June 2003.

We have reviewed the methodology of, and basis and assumptions used for, the valuation of the properties in the valuation report and noted that the properties which are occupied by the Company or left vacant have been valued on an open market basis assuming sale with the benefit of immediate vacant



---

## LETTER FROM ALTUS

---

possession and by reference to comparable sales evidence as available on the market while properties which are subject to tenancies as at the date of valuation have been valued on the basis of capitalisation of the net rental incomes with due allowance for reversionary income potential. We have no reason to doubt the fairness and appropriateness of the valuation of the real estate properties currently owned by iQuorum prepared by RHL Appraisal Ltd. and the assumptions adopted in arriving at such valuation.

Whilst there are signs that the property market in Hong Kong is recovering, there is no guarantee that the prices of the properties under the valuation will not fluctuate. Nevertheless, based on our review and discussions with the Directors and RHL Appraisal Ltd., we are of the view that the assumptions have been made with due care and the valuation provides a valid benchmark for the Directors to assess the fairness and reasonableness of the consideration.

The unaudited net asset value of the Outgoing Group, which amounted to HK\$51,405,065, was arrived at based on the audited net asset value of the ACL Group as at 30 June 2003 and adjusted for by the net asset value of the Remaining Group and items such as intercompany transactions and/or consolidation adjustments. The net asset value of the Outgoing Group on which the consideration was based on has been calculated to take into consideration the valuations prepared by the professional valuers as at 30 June 2003 and such net asset value has fairly reflected the realisable market values of the real estate properties and investments in antiques (whose values as at 30 June 2003 together accounted for approximately 85% of the Outgoing Group's total assets at the same date). For the purpose of this Circular, the professional valuers have provided valuations as at 31 October 2003 and it is noted that such valuations (which are set out in Appendix II and Appendix III respectively to this Circular) are not significantly different from the valuations as at 30 June 2003 referred to in the above.

We have reviewed the calculation of the net asset value of the Outgoing Group and noted that the valuations on which the calculation of the real estate properties and investment in antiques held by the Outgoing Group as at 30 June 2003 was based are in line with the valuations stated in the valuation reports prepared by the professional valuers. Given that the assets of the Outgoing Group comprise mainly real estate properties and antiques and that iQuorum is a non-listed company without a history of dividend payment, the more commonly used valuation methods, namely, those based on price to earnings multiple and dividend yield, are not applicable in the valuation of the Outgoing Group. We are of the view that the use of net asset value as the basis for determining the consideration is the appropriate approach.

---

## LETTER FROM ALTUS

---

Since the consideration payable by the Company is equivalent to the net asset value of the Outgoing Group as at 30 June 2003 plus a slight premium, the nature of which is further discussed in the following paragraph, we consider the consideration to be reasonable.

As set out in the section headed “Background of and reasons for the Acquisition” above, the aggregate effective consideration payable by the Company under the Disposal Agreement for the Acquisition amounts to HK\$53,286,742. This comprises HK\$51,405,065 as consideration for the entire issued share capital of iQuorum and HK\$1,881,677 as consideration for the Accounts Receivable, which are then reassigned, pursuant to the Disposal Agreement, to Sheen (a wholly-owned subsidiary of ACL) for nil consideration. Accordingly, the effective consideration of HK\$53,286,742 represents a premium of 3.66% to the net asset value of HK\$51,405,065 of the Outgoing Group acquired by the Company upon completion of the Acquisition. As advised by the Directors, the premium of about HK\$1.9 million generated in relation to the Acquisition will be treated as goodwill and amortised annually for five years according to the AIHL Group’s accounting policy and such amortisation expense will not have any significant adverse effect on the Company’s income statement. Taking into consideration the fact that (i) the Acquisition, followed by the Sale, will provide the AIHL Group with net cash proceeds of approximately HK\$67.1 million which will significantly enhance the financial position of the Group; (ii) the re-assignment of the Accounts Receivable is a term of the Disposal Agreement, and therefore necessary for completion of the Acquisition and ultimately to completion of the Sale; (iii) the net asset value of the Outgoing Group on which the consideration was based has taken into consideration the valuations prepared by the professional valuers and reflects the realisable market values of the real estate properties and investments in antiques; and (iv) the Directors’ confirmation that the annual amortisation of the goodwill arising from the Acquisition will not have any significant adverse effect on the Company’s income statement, we are of the view that the premium payable by the Company is acceptable and the total consideration is reasonable.

---

## LETTER FROM ALTUS

---

(ii) *Impairment losses and revaluation deficits of the Outgoing Group*

The financial information below was extracted from the annual report of ACL for the year ended 30 June 2003 and from the Letter from the Board:

	<b>For the year ended 30 June 2003 HK\$'000</b>
Impairment losses, allowances and revaluation losses:	
Deficit on revaluation of investment properties	(67,398)
Impairment loss recognised in respect of leasehold properties	(16,780)
Impairment loss recognised in respect of other investments	(35,824)
Allowance on short term loan	(23,990)
Allowance on trade and other receivables	(3,891)
Sub-total	<u>(147,883)</u>
 Net loss	 <u><u>(160,088)</u></u>

Following the Acquisition, turnover of the Outgoing Group will comprise rental income from properties under operating leases. As advised by the Directors, the recognition of impairment losses, allowances made on account receivables as well as revaluation of investment properties are all of an one-off and non-recurring nature. Therefore, without the recognition of such impairment losses and deficits, which amounted to approximately HK\$148.0 million, net loss before taxation of the Outgoing Group for the year ended 30 June 2003 would have amounted to approximately HK\$7.9 million. According to the Directors, a subsidiary which will cease to be a member of the Outgoing Group following the Acquisition contributed about HK\$1.1 million of net loss before taxation to the Outgoing Group in the financial year 2003 and hence after the Acquisition the Outgoing Group will no longer bear the administrative expenses generated by this subsidiary. In addition, depreciation expense, which is a non-cash item, amounted to HK\$3.1 million.

We have discussed with the Directors and were advised that management has made significant efforts to cut operating and administrative costs of the Outgoing Group and has implemented strict cost controls after the end of financial year 2003. The Directors also advised that although no cashflow forecast has been prepared in respect of the Outgoing Group, they are of the view that the operating results of the Outgoing Group will improve in the near future. Accordingly, the Directors are of the view that the Outgoing Group would not require material additional funding following the Acquisition.

---

## LETTER FROM ALTUS

---

Given the above, and in particular that (i) the turnover generated by the Outgoing Group is of a recurring nature; (ii) impairment losses, allowances and revaluations in relation to the Outgoing Group's assets were of an one-off nature and did not affect the cashflow of the Outgoing Group; and (iii) the cost controls implemented by management, we are of the opinion that the Directors' view that the Outgoing Group is not likely to require significant additional funding following the Acquisition has been made after due and careful consideration.

As explained in the section headed "Comparisons with valuations" and based on the professional valuations, our discussions with the Directors and RHL Appraisal Ltd. and our review of iQuorum's financial statements, we are of the view that the net asset value as at 30 June 2003 of the Outgoing Group was reasonably stated as it reflected the realisable market values of the properties and antiques as at 30 June 2003 as assessed by the professional valuers. We concur with the Directors' view that the aggregate consideration of approximately HK\$53.3 million is fair and reasonable.

#### **4. Financial effects of the Acquisition on the AIHL Group**

As stated in the section headed "Financing of the Acquisition" above, completion of the Acquisition is intended to be followed immediately by completion of the Sale and in the unlikely event that the Sale is not completed, the Company and ACL have mutually confirmed to each other in writing to terminate or otherwise renegotiate the terms of the Disposal Agreement. Therefore, upon completion of the Sale, the Company will receive from the Offeror a cash consideration amounting to approximately HK\$123.0 million of which approximately HK\$53.3 million will be used to settle the consideration payable to ACL under the Disposal Agreement. As a result, the Company will not be required to finance the Acquisition with its own funds.

---

## LETTER FROM ALTUS

---

The following is a statement of the proforma unaudited consolidated net tangible assets of the AIHL Group immediately following the Acquisition and the Sale based on the audited consolidated financial statements of the Group as at 30 June 2003:

	<i>HK\$'000</i>
<i>Audited consolidated net assets of the Group at 30 June 2003</i>	171,616
Less: Goodwill as at 30 June 2003 arising from the acquisition of a plant facility by a subsidiary	(770)
Add: Negative goodwill as at 30 June 2003 arising from the acquisitions of additional interests in ACL in 2001 and 2002	43,793
	<hr/>
Adjusted consolidated net tangible asset value of the Group at 30 June 2003	214,639
Add: Unaudited net tangible assets of iQuorum at 30 June 2003 acquired (excluding trade and other receivables assigned to ACL Group pursuant to the Disposal Agreement)	51,405
Less: Consideration paid for acquisition of iQuorum	(51,405)
Less: Trade and other receivables assigned to ACL Group pursuant to the Disposal Agreement	(1,882)
	<hr/>
<i>Adjusted consolidated net tangible asset value of the Group after completion of Acquisition but before completion of the Sale</i>	212,757
Less: 74.99% of audited net tangible assets of ACL Group attributable to the Group at 30 June 2003	(83,567)
Add: Consideration received upon completion of the Disposal pursuant to the Sales and Purchase Deed	123,000
Less: Transaction costs and professional fees provided upon completion of the Disposal	(2,500)
	<hr/>
<i>Proforma adjusted consolidated net tangible asset value of the AIHL Group</i>	<u>249,690</u>

---

## LETTER FROM ALTUS

---

As explained previously in the section headed “Financing of the Acquisition” above, completion of the Acquisition will be immediately followed by completion of the Sale and the Company and ACL have mutually confirmed to each other in writing to terminate the Acquisition or otherwise renegotiate the terms of the Disposal Agreement in the unlikely event that the Sale is not completed. Therefore, the effect of the Acquisition on the net asset value of the AIHL Group is subject to completion of the Sale. However, following the completions of both the Acquisition and the Sale, the net tangible asset value of the AIHL Group would increase from approximately HK\$214.6 million to approximately HK\$249.7 million. Furthermore, the cash balance and investment in properties and other investments of the AIHL Group would also increase by HK\$67.2 million and HK\$51.4 million respectively immediately after completion of Acquisition and the Sale.

We have discussed with the management of the Company the future prospects of the AIHL Group and have been advised that the Directors do not intend to introduce any significant changes to the operations of the AIHL Group following the Acquisition. As mentioned previously in the paragraph headed “Impairment losses and revaluation deficits of the Outgoing Group” above, the significant loss incurred by the Outgoing Group during the financial year 2003 was mainly attributable to the recognition of one-off revaluation deficits and the impairment losses. On that basis, we are of the view that the Acquisition and the Sale will enhance the net asset position of the AIHL Group.

Based on the above, namely, the increase in the AIHL Group’s cash balance, the improvement in net tangible asset value, the acquiring of the Outgoing Group at a total consideration approximating its net asset value of HK\$51,405,065, which was arrived at based on the audited net asset value of the ACL Group as at 30 June 2003 and adjusted for by the net asset values of the Remaining Group and items such as intercompany transactions and/or consolidation adjustments (without having to finance the Acquisition with the Company’s working capital), we concur with the Directors’ view that the Acquisition is fair and reasonable as far as the Company and its Shareholders are concerned and is instrumental in the completion of the Sale. We also agree with the Directors that as the Sale will (i) allow the Company to be more focused on its existing businesses in its overseas marketing and distribution of electronic and healthcare products and property investment and development; and (ii) strengthen the cash position and the net asset value of the AIHL Group, it is therefore in the interest of the Company and its Shareholders.

---

## LETTER FROM ALTUS

---

### THE SHARE REPURCHASE AND WARRANT REPURCHASE

As stated in the Letter from the Board, since iQuorum is interested in 48,329,000 Shares and 9,665,800 AIHL Warrants, representing approximately 5.14% and 1.03% of the entire issued share capital of the Company respectively, the SFC has indicated its position that the Company will be taken to have repurchased approximately 5.14% of its own shares and 1.03% of its own warrants by virtue of its purchase of the iQuorum Sale Shares pursuant to the Disposal Agreement and that the Share Repurchase is subject to the rules set out in the Share Repurchase Code.

The Repurchase Shares and the Repurchase Warrants represented approximately HK\$2.71 million and HK\$96,658 respectively of the unaudited net tangible asset value of the Outgoing Group (excluding minority interests) as at 30 June 2003 (a total of HK\$2,803,282) and are reflective of the market values of the Shares and the AIHL Warrants as at 30 June 2003.

It is noted that as at the Latest Practicable Date, the market values of the Repurchase Shares and the Repurchase Warrants were HK\$4,784,571 and HK\$96,658 respectively and the total value have risen to HK\$4,881,229 since 30 June 2003. However, the Directors confirmed and wish to emphasise the fact that the negotiation for the acquisition of the iQuorum Sale Shares took no particular account of the value of the Repurchase Shares and the Repurchase Warrants but were by reference to the net asset value of the Outgoing Group as at 30 June 2003. The Company has not yet decided what it intends to cause iQuorum to do with the Repurchase Shares and the Repurchase Warrants following completion of the Disposal Agreement but there will be no change to the shareholding structure of the Group and the public float of the Shares prior and subsequent to the Share Repurchase.

Having considered (i) the valuations above; (ii) the Directors' confirmation that the negotiation for the acquisition of the iQuorum Sale Shares took no particular account of the value of the Repurchase Shares and the Repurchase Warrants; and (iii) the Repurchase Shares and Repurchase Warrants are part of the Outgoing Group's assets upon the Acquisition, we are of the view that the repurchases, which are incidental to the Acquisition and ultimately to the Sale, are in the interest of the Company and its Shareholders as a whole.

### CONCLUSIONS AND RECOMMENDATIONS

In arriving at our recommendation, we have considered the following key factors which should be read in conjunction with and interpreted in the context of the full text of this letter:

1. the Outgoing Group is engaged in the business of property and investment holding and the Acquisition is therefore in line with the principal activities of the AIHL Group. The Acquisition and the realignment of businesses which will take place immediately after the Acquisition will enable the AIHL Group to focus on its core businesses;

---

## LETTER FROM ALTUS

---

2. the Acquisition is a condition to the completion of the Sale, which will result in a net cash inflow and increases the AIHL Group's cash balance by approximately HK\$67.2 million. Moreover, the Acquisition will be funded by such proceeds and hence the Company will not be required to finance the Acquisition with its internal funds;
3. the assignment of Accounts Receivable, which leads to a premium to the net asset value of the Outgoing Group, is a condition to completion of the Acquisition and ultimately to completion of the Sale. The Directors have confirmed that the amortization of such premium will not have any significant adverse effect on the Company's income statement; and
4. the total effective consideration of approximately HK\$53.3 million, which is based on and approximates the net asset value of the Outgoing Group, was determined with reference to professional valuations on an open market basis and therefore is a fair representation of the net asset value of the Outgoing Group.

Having considered the above, we consider that the terms of the Disposal Agreement and the Share Repurchase are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend to the Independent Shareholders to vote in favour of the ordinary resolution regarding approval of the Acquisition and the special resolution regarding approval of the Share Repurchase to be proposed at the SGM.

Yours faithfully

For and on behalf of

**Altus Capital Limited**

**Arnold Ip**

*Executive Director*

**Kevin Chan**

*Executive Director*



**1. FINANCIAL INFORMATION**

The following is a summary of the audited consolidated results of the Group for each of the three financial years ended 30 June 2003:

**Results**

	For the year ended 30 June		
	2003	2002	2001
	HK\$'000	HK\$'000	HK\$'000
Turnover	<u>125,866</u>	<u>191,895</u>	<u>210,800</u>
Loss before taxation	(220,803)	(39,948)	(37,255)
Taxation	<u>2,863</u>	<u>(182)</u>	<u>(272)</u>
Loss before minority interests	(217,940)	(40,130)	(37,527)
Minority interests	<u>(50,554)</u>	<u>(12,213)</u>	<u>(14,032)</u>
Net loss attributable to shareholders	<u>(167,386)</u>	<u>(27,917)</u>	<u>(23,495)</u>
Loss per share			
Basic	<u>(17.8) cents</u>	<u>(3.0) cents</u>	<u>(2.5) cents</u>

## 2. FINANCIAL INFORMATION

The following financial report is extracted from the audited consolidated financial statements of the Group for the year ended 30 June 2003:

**Consolidated Income Statement**

*For the year ended 30 June 2003*

	<i>Notes</i>	<b>2003</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i>
Turnover	5	125,866	191,895
Cost of sales		(94,624)	(152,603)
Gross profit		31,242	39,292
Other operating income		8,684	5,536
Investment income	7	3,176	351
Interest income		3,348	1,553
Distribution costs		(2,917)	(4,373)
Administrative expenses		(77,758)	(59,423)
Allowance for trade and other receivables		(17,613)	–
Allowance for short-term loans receivable		(23,990)	(3,065)
Allowance for long-term receivable		(1,180)	–
Deficit on revaluation of investment properties		(78,012)	–
Impairment loss recognised in respect of other investments		(38,968)	–
Impairment loss recognised in respect of property, plant and equipment		(18,986)	(4,100)
Impairment loss recognised in respect of other securities		–	(619)
Loss on disposal of investment properties		–	(9,823)
Loss from operations	8	(212,974)	(34,671)
Finance costs	9	(7,829)	(5,259)
Loss on disposal of subsidiaries		–	(18)
Loss before taxation		(220,803)	(39,948)
Taxation	11	2,863	(182)
Loss before minority interests		(217,940)	(40,130)
Minority interests		(50,554)	(12,213)
Net loss for the year		<u>(167,386)</u>	<u>(27,917)</u>
LOSS PER SHARE	12		
Basic		<u>(17.8) cents</u>	<u>(3.0) cents</u>

**Consolidated Balance Sheet**

At 30 June 2003

	<i>Notes</i>	<b>2003</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i>
Non-current assets			
Investment properties	13	107,680	202,780
Property, plant and equipment	14	293,567	319,577
Long-term receivable	15	–	1,420
Other investments	17	25,351	66,659
Other securities	18	7,144	8,784
Goodwill	19	770	990
Negative goodwill	20	(43,793)	(46,119)
		<u>390,719</u>	<u>554,091</u>
Current assets			
Inventories	21	10,331	8,725
Trade and other receivables	22	41,124	60,706
Short-term loans receivable	23	7,246	22,197
Tax recoverable		124	124
Pledged bank deposits		3,219	4,702
Other time deposits		38,338	38,011
Bank balances and cash		6,589	40,664
		<u>106,971</u>	<u>175,129</u>
Current liabilities			
Trade and other payables	24	44,462	48,169
Amount due to a director	25	2,214	–
Tax payable		3,559	6,159
Bank and other borrowings			
– due within one year	26	127,074	116,400
Obligations under finance leases			
– due within one year	27	5,709	3,743
		<u>183,018</u>	<u>174,471</u>
Net current (liabilities) assets		<u>(76,047)</u>	<u>658</u>
		<u><u>314,672</u></u>	<u><u>554,749</u></u>

**APPENDIX I****FINANCIAL INFORMATION OF THE GROUP**

		<b>2003</b>	<b>2002</b>
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital and reserves			
Share capital	28	188,216	188,216
Treasury shares	29	(12,546)	(12,546)
Reserves		(4,054)	175,469
		<u>171,616</u>	<u>351,139</u>
Minority interests		<u>105,348</u>	<u>162,905</u>
Non-current liabilities			
Amount due to a minority shareholder of a subsidiary	31	1,073	1,073
Bank and other borrowings			
– due after one year	26	31,630	36,656
Deferred taxation	32	384	647
Obligations under finance leases			
– due after one year	27	3,841	2,329
Convertible note	33	780	–
		<u>37,708</u>	<u>40,705</u>
		<u>314,672</u>	<u>554,749</u>

**Balance Sheet***At 30 June 2003*

	<i>Notes</i>	<b>2003</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i>
Non-current assets			
Interests in subsidiaries	<i>16</i>	286,327	314,903
Other securities	<i>18</i>	969	1,239
		<u>287,296</u>	<u>316,142</u>
Current assets			
Trade and other receivables		527	1,604
Bank balances and cash		13	166
		<u>540</u>	<u>1,770</u>
Current liabilities			
Trade and other payables		1,626	805
Bank and other borrowings	<i>26</i>	29,560	18,024
		<u>31,186</u>	<u>18,829</u>
Net current liabilities		<u>(30,646)</u>	<u>(17,059)</u>
		<u>256,650</u>	<u>299,083</u>
Capital and reserves			
Share capital	<i>28</i>	188,216	188,216
Reserves	<i>30</i>	(18,273)	29,314
		169,943	217,530
Non-current liability			
Amounts due to subsidiaries	<i>16</i>	86,707	81,553
		<u>256,650</u>	<u>299,083</u>

**Consolidated Statement of Changes in Equity***For the year ended 30 June 2003*

	Share capital HK\$'000	Treasury shares HK\$'000	Investment			Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Distri- butable reserve HK\$'000	Trans- lation reserve HK\$'000	Accumu- lated losses HK\$'000	Total HK\$'000
			Shares premium account HK\$'000	Investment revaluation reserve HK\$'000	property revaluation reserve HK\$'000						
THE GROUP											
At 1 July 2001	188,216	(12,546)	3	(12,201)	21,238	10,892	220,414	93,961	(2,975)	(114,571)	392,431
Deficit on revaluation of investment properties	-	-	-	-	(7,043)	-	-	-	-	-	(7,043)
Deficit on revaluation of other securities	-	-	-	(2,709)	-	-	-	-	-	-	(2,709)
Exchange differences arising from translation of operations outside Hong Kong	-	-	-	-	-	-	-	-	(118)	-	(118)
Net loss not recognised in the income statement	-	-	-	(2,709)	(7,043)	-	-	-	(118)	-	(9,870)
Eliminated on disposal of investment properties	-	-	-	-	(3,817)	-	-	-	-	-	(3,817)
Eliminated on disposal of other securities	-	-	-	(52)	-	-	-	-	-	-	(52)
Impairment loss recognised in respect of other securities	-	-	-	364	-	-	-	-	-	-	364
Net loss for the year	-	-	-	-	-	-	-	-	-	(27,917)	(27,917)
At 30 June 2002	188,216	(12,546)	3	(14,598)	10,378	10,892	220,414	93,961	(3,093)	(142,488)	351,139
Deficit on revaluation of investment properties	-	-	-	-	(10,378)	-	-	-	-	-	(10,378)
Deficit on revaluation of other securities	-	-	-	(1,612)	-	-	-	-	-	-	(1,612)
Exchange differences arising from translation of operations outside Hong Kong	-	-	-	-	-	-	-	-	(229)	-	(229)
Net loss not recognised in the income statement	-	-	-	(1,612)	(10,378)	-	-	-	(229)	-	(12,219)
Eliminated on disposal of other securities	-	-	-	82	-	-	-	-	-	-	82
Net loss for the year	-	-	-	-	-	-	-	-	-	(167,386)	(167,386)
At 30 June 2003	188,216	(12,546)	3	(16,128)	-	10,892	220,414	93,961	(3,322)	(309,874)	171,616

The capital reserve includes HK\$15,536,000 (2002: HK\$15,536,000) in respect of goodwill and HK\$31,340,000 (2002: HK\$31,340,000) in respect of negative goodwill.

**Consolidated Cash Flow Statement***For the year ended 30 June 2003*

	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>OPERATING ACTIVITIES</b>		
Loss before taxation	(220,803)	(39,948)
Adjustments for:		
Interest income	(3,348)	(1,553)
Finance costs	7,829	5,259
Dividend income	(17)	(21)
Deficit on revaluation of investment properties	78,012	–
Depreciation and amortisation of property, plant and equipment	9,069	11,534
Loss on disposal of subsidiaries	–	18
(Gain) loss on disposal of other investments	(3,159)	51
Loss (gain) on disposal of other securities	85	(330)
Amortisation of goodwill	220	110
Release of negative goodwill to income	(2,326)	(400)
Allowance for trade and other receivables	17,613	–
Allowance for short-term loans receivable	23,990	3,065
Allowance for long-term receivable	1,180	–
Impairment loss recognised in respect of other investments	38,968	–
Impairment loss recognised in respect of property, plant and equipment	18,986	4,100
Impairment loss recognised in respect of other securities	–	619
Loss (gain) on disposal of property, plant and equipment	8	(939)
Loss on disposal of investment properties	–	9,823
	<hr/>	<hr/>
Operating cash flows before movements in working capital	(33,693)	(8,612)
(Increase) decrease in inventories	(1,606)	2,782
Decrease in trade and other receivables	1,969	1,654
Decrease in trade and other payables	(3,936)	(6,631)
	<hr/>	<hr/>
Cash used in operations	(37,266)	(10,807)
Hong Kong Profits Tax paid	–	(381)
	<hr/>	<hr/>
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(37,266)</b>	<b>(11,188)</b>

## APPENDIX I

## FINANCIAL INFORMATION OF THE GROUP

	<i>Note</i>	<b>2003</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i>
<b>INVESTING ACTIVITIES</b>			
Proceeds from disposal of property, plant and equipment		10,548	290
Repayment of short-term loans receivable		5,598	35,294
Proceeds from disposal of other investments		5,499	88
Interest received		1,806	1,553
Decrease in pledged bank deposits		1,483	430
Rebate from a vendor in respect of purchase of property, plant and equipment		284	–
Repayment of long-term receivable		240	–
Proceeds from disposal of other securities		25	873
Dividends received		17	21
Advance of short-term loans receivable		(13,095)	(52,431)
Purchase of property, plant and equipment		(2,496)	(5,362)
Proceeds from disposal of investment properties		–	67,436
Purchase of investment properties		–	(61,822)
Acquisition of additional interest in a subsidiary		–	(1,882)
Purchase of other securities		–	(512)
Purchase of other investments		–	(85)
Disposal of subsidiaries (net of cash and cash equivalents disposed of)	38	–	(18)
<b>NET CASH FROM (USED IN) INVESTING ACTIVITIES</b>		<u>9,909</u>	<u>(16,127)</u>
<b>FINANCING ACTIVITIES</b>			
Repayment of bank loans		(30,760)	(31,788)
Repayment of obligations under finance leases		(7,204)	(3,506)
Interest paid		(6,962)	(4,796)
Repayment of other loans		(5,815)	(32,598)
Finance charges paid in respect of obligations under finance leases		(867)	(463)
New bank loans raised		21,049	75,916
New other loans raised		11,598	85,388
Advance from a minority shareholder of a subsidiary		5,198	–
Advance from a director		2,214	–
Proceeds on issuance of a convertible note		780	–
Additional capital from minority shareholders		–	2,331
<b>NET CASH (USED IN) FROM FINANCING ACTIVITIES</b>		<u>(10,769)</u>	<u>90,484</u>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>		<u>(38,126)</u>	<u>63,169</u>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>		<u>74,477</u>	<u>11,308</u>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>		<u><u>36,351</u></u>	<u><u>74,477</u></u>



	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents as previously reported		60,941
Effect of reclassification of import loans		13,536
		<u>74,477</u>
Cash and cash equivalents as restated		<u><u>74,477</u></u>
Being:		
Other time deposits	38,338	38,011
Bank balances and cash	6,589	40,664
Bank overdrafts	(8,576)	(4,198)
	<u>36,351</u>	<u>74,477</u>

**NOTES TO FINANCIAL STATEMENTS**

*For the year ended 30 June 2003*

**1. GENERAL**

The Company is incorporated in Bermuda as an exempted company with limited liability. Its shares and warrants are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company acts as an investment holding company. The Group is principally engaged in the design, manufacture, marketing and distribution of consumer electronic products, manufacture and distribution of health care products, property and investment holding and property development.

**2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS**

In preparing the financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of its net current liabilities of approximately HK\$76,047,000 at 30 June 2003. The directors are satisfied that the Group has sufficient funding and facilities to be able to meet in full its liabilities as they fall due for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

**3. ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE**

In the current year, the Group adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice (“SSAP(s)”) issued by the Hong Kong Society of Accountants. The adoption of these SSAPs has no significant effect on the results for the current or prior accounting periods. Accordingly, no prior year adjustment has been required.

**Presentation of financial statements**

In the current year, the Group adopted SSAP 1 (Revised) “Presentation of financial statements”, which results in the inclusion of the consolidated statement of changes in equity in the financial statements. The changes in equity were previously presented as a note to the financial statements by the Group.

**Foreign currencies**

The revisions to SSAP 11 “Foreign currency translation” have eliminated the choice of translating the income statements of subsidiaries outside Hong Kong at the closing rate for the year, the policy previously followed by the Group. They are now required to be translated at an average rate. This change in accounting policy has not had any material effect on the results for the current or prior accounting periods.

**Cash flow statements**

In the current year, the Group adopted SSAP 15 (Revised) “Cash flow statements”. Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest paid, interest received and dividends received, which were previously presented under a separate heading, are classified as investing or financing cash flows. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. Cash flows of the operations outside Hong Kong have been re-translated at the rates prevailing at the dates of the cash flows rather than the rate of exchange ruling on the balance sheet date. The re-definition of cash and cash equivalents has resulted in a restatement of the comparative amounts shown in the cash flow statement.

**Employee benefits**

In the current year, the Group adopted SSAP 34 “Employee benefits”, which introduces measurement rules for employee benefits, including retirement benefits plans. Because the Group participates only in defined contribution retirement benefits schemes, the adoption of SSAP 34 has not had any significant impact on the financial statements.

**4. SIGNIFICANT ACCOUNTING POLICIES**

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties and investments in securities, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

**Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 30 June each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

**Goodwill**

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group’s interest in the fair value of the identifiable assets and liabilities at the date of acquisition of a subsidiary.

Goodwill arising on acquisitions prior to 1 July 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions since 1 July 2001 is capitalised and amortised on a straight-line basis over its useful economic life and is presented separately in the balance sheet. On the disposal of a subsidiary, the attributable amount of unamortised goodwill is included in the determination of the profit and loss on disposal.

**Negative goodwill**

Negative goodwill represents the excess of the Group’s interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisitions prior to 1 July 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary.

Negative goodwill arising on acquisitions since 1 July 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

**Investments in subsidiaries**

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment losses.

**Revenue recognition**

Sales of goods are recognised when goods are delivered and title has passed.

Sales of investments in securities are recognised on a trade date basis.

Rental income, including rental invoiced in advance from property under operating leases, is recognised on a straight line basis over the terms of the relevant lease.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

**Investment properties**

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market values based on independent professional valuations at the balance sheet. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

**Property, plant and equipment**

Property, plant and equipment, other than properties held for development, are stated at cost less depreciation or amortisation and accumulated impairment losses.

The cost of leasehold land is amortised over the period of the relevant leases using the straight line method.

The cost of buildings is depreciated using the straight line method over their estimated useful lives of fifty years or, where shorter, the period of the relevant leases.

Properties held for development are carried at cost, less any identified impairment losses. Cost includes land cost, construction and other incidental costs. Depreciation of these properties, on the same basis as other properties, commences when the assets are put into use.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than properties held for development, over their estimated useful lives, using the straight line method, at the following rates per annum:

Freehold land	Nil
Leasehold improvements	Over the term of the lease
Plant and machinery	10% to 25%
Furniture, fixtures and equipment	10% to 50%
Motor vehicles	10% to 33 $\frac{1}{3}$ %
Motor boats	10% to 20%

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Assets held under finance leases are depreciated over their estimated useful lives on the same basis as owned assets or, where shorter, the period of the relevant lease.

### **Impairment**

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

### **Other investments**

Other investments are antiques held for long-term purposes and are stated at cost less any identified impairment losses.

### **Investments in securities**

Investments in securities are recognised on a trade-date basis and are initially measured at cost. All securities other than held-to-maturity debt securities are measured at subsequent reporting dates at fair value.

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the period. For other securities, unrealised gains and losses are dealt with in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss is included in the net profit or loss for the period.

### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

### **Assets held under finance leases**

Assets are classified as being held under finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as obligations under finance leases. Finance charges, which represent the difference between the total

leasing commitments and the fair value of the assets acquired, are charged to the income statement over the years of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight line basis over the relevant lease terms.

#### Treasury shares

Treasury shares are ordinary shares of the Company held by a subsidiary which acquired these shares before it became a subsidiary of the Company. Treasury shares are recorded using the cost method and are separately disclosed and regarded as a deduction of the Group's equity.

#### Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

#### Foreign currencies

Transactions in currencies other than Hong Kong dollar are initially recorded at the approximate rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated into Hong Kong dollar at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

#### Retirement benefits scheme

The retirement benefit costs charged in the income statement represent the contributions payable in respect of the current year to the Group's defined contribution retirement benefits scheme and mandatory provident fund scheme.

### 5. TURNOVER

	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales of goods	115,274	180,820
Rental income	10,592	11,075
	<u>125,866</u>	<u>191,895</u>

### 6. BUSINESS AND GEOGRAPHICAL SEGMENTS

#### Business segments

For management purposes, the Group is currently organised into four (2002: three) operating divisions – manufacture and distribution of electronic products, property and investment holding, property development and manufacture and distribution of health care products. These divisions are the basis on which the Group reports its primary segment information.

Business segment information for the year ended 30 June 2003 is presented below:

	Manufacture and distribution of electronic products <i>HK\$'000</i>	Property and investment holding <i>HK\$'000</i>	Property development <i>HK\$'000</i>	Manufacture and distribution of health care products <i>HK\$'000</i>		Total <i>HK\$'000</i>
Turnover	109,263	10,592	–	6,011		125,866
Results						
Segment results	(2,406)	(122,823)	(14,982)	(15,832)		(156,043)
Unallocated corporate expenses						(56,931)
Loss from operations						(212,974)
Finance costs						(7,829)
Loss before taxation						(220,803)
Taxation						2,863
Loss before minority interests						(217,940)
Minority interests						(50,554)
Net loss for the year						(167,386)
	Manufacture and distribution of electronic products <i>HK\$'000</i>	Property and investment holding <i>HK\$'000</i>	Property development <i>HK\$'000</i>	Manufacture and distribution of health care products <i>HK\$'000</i>	Corporate <i>HK\$'000</i>	Total <i>HK\$'000</i>
Assets						
Segment assets	61,128	142,772	239,603	10,006	–	453,509
Unallocated corporate assets					44,181	44,181
Consolidated total assets						497,690
Liabilities						
Segment liabilities	19,603	23,854	32	2,992	–	46,481
Unallocated corporate liabilities					174,245	174,245
Consolidated total liabilities						220,726
Other information						
Capital expenditure	3,615	–	113	1,800	7,366	12,894
Depreciation and amortisation of property, plant and equipment	6,132	2,119	63	266	489	9,069
Deficit on revaluation of investment properties	1,193	76,819	–	–	–	78,012
Impairment losses in respect of:						
Other investments	–	38,968	–	–	–	38,968
Property, plant and equipment	–	17,487	–	–	1,499	18,986
Allowance for trade and other receivables	–	2,613	15,000	–	–	17,613
Allowance for short-term loans receivable	–	–	–	–	23,990	23,990
Allowance for long-term receivable	1,180	–	–	–	–	1,180
Inventories written off	170	–	–	–	–	170

Business segment information for the year ended 30 June 2002 is presented below:

	<b>Manufacture and distribution of electronic products</b> <i>HK\$'000</i>	<b>Property and investment holding</b> <i>HK\$'000</i>	<b>Property development</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
Turnover	180,820	11,075	–	191,895
Results				
Segment results	2,427	(16,042)	–	(13,615)
Unallocated corporate expenses				(21,056)
Loss from operations				(34,671)
Finance costs				(5,259)
Loss on disposal of subsidiaries				(18)
Loss before taxation				(39,948)
Taxation				(182)
Loss before minority interests				(40,130)
Minority interests				(12,213)
Net loss for the year				(27,917)

	<b>Manufacture and distribution of electronic products</b> <i>HK\$'000</i>	<b>Property and investment holding</b> <i>HK\$'000</i>	<b>Property development</b> <i>HK\$'000</i>	<b>Corporate</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
Assets					
Segment assets	73,991	333,761	252,284	–	660,036
Unallocated corporate assets				69,184	69,184
Consolidated total assets					729,220
Liabilities					
Segment liabilities	26,776	21,196	–	–	47,972
Unallocated corporate liabilities				167,204	167,204
Consolidated total liabilities					215,176
Other information					
Capital expenditure	6,708	64,593	2,430	230	73,961
Depreciation and amortisation of property, plant and equipment	7,102	2,212	–	2,220	11,534
Impairment losses in respect of:					
Property, plant and equipment	2,001	2,099	–	–	4,100
Other securities	–	619	–	–	619
Allowance for short-term loans receivable	–	3,065	–	–	3,065
Inventories written off	1,200	–	–	–	1,200



**Geographical segments**

The Group's operations are principally located in Hong Kong, United States of America and The People's Republic of China, other than Hong Kong (the "PRC"). The Group's administrative and manufacturing function is carried out in Hong Kong and the PRC.

The following table provides an analysis of the Group's turnover by geographical market, irrespective of the origin of the goods:

	<b>Sales revenue by geographical market</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	79,774	144,249
PRC	9,795	8,206
Other Asian countries	8,222	2,480
Europe	742	9,682
United States of America	24,654	26,333
British Virgin Islands	1,013	824
Australia	1,664	–
Others	2	121
	<u>125,866</u>	<u>191,895</u>

The following is an analysis of the carrying amount of segment assets and additions to property, plant and equipment analysed by the geographical area in which the assets are located:

	<b>Carrying amount of segment assets</b>		<b>Additions to property, plant and equipment</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	148,123	340,063	10,321	62,194
PRC	229,568	250,271	2,015	9,337
Other Asian countries	2,722	551	–	–
Europe	136	383	–	–
United States of America	24,231	48,000	142	–
British Virgin Island	92,173	89,809	95	2,430
Australia	613	–	321	–
Others	–	19	–	–
	<u>497,566</u>	<u>729,096</u>	<u>12,894</u>	<u>73,961</u>

**7. INVESTMENT INCOME**

	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Dividend income from listed securities	17	21
Gain on disposal of other investments	3,159	–
Gain on disposal of other securities	–	330
	<u>3,176</u>	<u>351</u>

## 8. LOSS FROM OPERATIONS

	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss from operations has been arrived at after charging:		
Staff costs, including directors' remuneration:		
Basic salaries and allowances	44,596	31,926
Retirement benefits scheme contributions, no forfeited contributions (2002: net of forfeited contributions of HK\$352,000)	643	477
Total staff costs	<u>45,239</u>	<u>32,403</u>
Amortisation of goodwill included in administrative expenses	220	110
Auditors' remuneration:		
Current year	1,497	1,363
Underprovision in prior years	280	68
Depreciation and amortisation:		
Owned assets	5,179	7,768
Assets held under finance leases	3,890	3,766
Loss on disposal of other investments	–	51
Loss on disposal of other securities	85	–
Loss on disposal of property, plant and equipment	8	–
and after crediting:		
Release of negative goodwill included in other operating income	2,326	400
Rental income from investment properties, net of outgoings of HK\$893,000 (2002: HK\$1,009,000)	9,699	10,066
Gain on disposal of property, plant and equipment	<u>–</u>	<u>939</u>

## 9. FINANCE COSTS

	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest expense on:		
bank and other borrowings wholly repayable within five years	6,060	2,968
bank and other borrowings not wholly repayable within five years	902	1,828
Finance charges on obligations under finance leases	867	463
	<u>7,829</u>	<u>5,259</u>

## 10. DIRECTORS' AND EMPLOYEES' REMUNERATION

## (a) Directors' remuneration

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Fees:		
Executive	–	–
Non-executive	100	50
Independent non-executive	400	200
Other emoluments:		
Executive		
Salaries and other benefits	7,402	9,058
Performance related incentive payments	9,076	–
Retirement benefits scheme contributions	24	24
	<u>17,002</u>	<u>9,332</u>

The directors' remuneration was within the following bands:

	Number of directors	
	2003	2002
Nil to HK\$1,000,000	4	4
HK\$3,500,001 to HK\$4,000,000	–	1
HK\$4,500,001 to HK\$5,000,000	–	1
HK\$7,000,001 to HK\$7,500,000	1	–
HK\$8,500,001 to HK\$9,000,000	1	–
	<u>1</u>	<u>–</u>

## (b) Employees' remuneration

The five highest paid individuals included three (2002: two) directors, details of whose remuneration are set out above. The remuneration of the remaining two (2002: three) individuals is as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Salaries and other benefits	2,213	2,886
Retirement benefits scheme contributions	121	133
	<u>2,334</u>	<u>3,019</u>

Their remuneration is within the following bands:

	Number of employees	
	2003	2002
Nil to HK\$1,000,000	–	1
HK\$1,000,001 to HK\$1,500,000	2	2
	<u>2</u>	<u>2</u>

During the years ended 30 June 2003 and 2002, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office. During the years ended 30 June 2003 and 2002, no directors waived any emoluments.

## 11. TAXATION

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
The charge comprises:		
Hong Kong Profits Tax		
Current year	250	196
(Over)underprovision in prior year	(2,850)	3
	<u>(2,600)</u>	<u>199</u>
Deferred taxation ( <i>note 32</i> )		
Credit for the year	(324)	(17)
Effect of change in tax rate	61	–
	<u>(263)</u>	<u>(17)</u>
	<u><u>(2,863)</u></u>	<u><u>182</u></u>

Hong Kong Profits Tax was calculated at 17.5% (2002: 16%) of the estimated assessable profit for the year ended 30 June 2002.

Details of deferred taxation are set out in note 32.

## 12. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the year of HK\$167,386,000 (2002: loss of HK\$27,917,000) and on 941,080,745 (2002: 941,080,745) ordinary shares of the Company in issue during the year.

No diluted loss per share has been presented as the exercise prices of the Company's outstanding share options and warrants were higher than the average market price of the shares of the Company for both years and the conversion of the Group's outstanding convertible note is anti-dilutive for the year.

## 13. INVESTMENT PROPERTIES

	<b>THE GROUP</b> <i>HK\$'000</i>
VALUATION	
At 1 July 2002	202,780
Transfer from property, plant and equipment ( <i>note 14</i> )	293
Deficit on revaluation	<u>(95,393)</u>
At 30 June 2003	<u><u>107,680</u></u>

The investment properties were revalued at 30 June 2003 on an open market value basis by RHL Appraisal Ltd., an independent firm of professional property valuers in Hong Kong.

The deficit arising on revaluation of investment properties amounted to HK\$95,393,000. After eliminating minority shareholders' share of deficit of HK\$7,003,000, HK\$10,378,000 has been charged to the investment property revaluation reserve. The remaining balance of HK\$78,012,000, being the excess of the deficit over the balance on the investment property revaluation reserve is charged to the consolidated income statement.

The value of investment properties held by the Group comprises:

	2003 HK\$'000	2002 HK\$'000
Held in Hong Kong:		
Long leases	71,600	131,300
Medium-term leases	2,920	3,820
Held outside Hong Kong:		
Medium-term leases	29,300	63,800
Freehold	3,860	3,860
	<u>107,680</u>	<u>202,780</u>

#### 14. PROPERTY, PLANT AND EQUIPMENT

	Properties held for development HK\$'000	Land and buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Motor boats HK\$'000	Total HK\$'000
THE GROUP								
COST								
At 1 July 2002	258,618	50,510	2,652	79,127	74,695	12,357	16,298	494,257
Additions	95	14	111	1,851	9,717	1,106	-	12,894
Transfer to investment properties (note 13)	-	(341)	-	-	-	-	-	(341)
Disposals	-	(10,451)	-	-	(695)	(376)	-	(11,522)
At 30 June 2003	<u>258,713</u>	<u>39,732</u>	<u>2,763</u>	<u>80,978</u>	<u>83,717</u>	<u>13,087</u>	<u>16,298</u>	<u>495,288</u>
DEPRECIATION AND IMPAIRMENT								
At 1 July 2002	6,334	2,995	77	68,905	68,870	11,204	16,295	174,680
Provided for the year	-	835	63	4,151	3,306	713	1	9,069
Transfer to investment properties (note 13)	-	(48)	-	-	-	-	-	(48)
Eliminated on disposals	-	-	-	-	(695)	(271)	-	(966)
Impairment loss	1,106	15,386	1,276	-	1,218	-	-	18,986
At 30 June 2003	<u>7,440</u>	<u>19,168</u>	<u>1,416</u>	<u>73,056</u>	<u>72,699</u>	<u>11,646</u>	<u>16,296</u>	<u>201,721</u>
NET BOOK VALUES								
At 30 June 2003	<u>251,273</u>	<u>20,564</u>	<u>1,347</u>	<u>7,922</u>	<u>11,018</u>	<u>1,441</u>	<u>2</u>	<u>293,567</u>
At 30 June 2002	<u>252,284</u>	<u>47,515</u>	<u>2,575</u>	<u>10,222</u>	<u>5,825</u>	<u>1,153</u>	<u>3</u>	<u>319,577</u>

The net book values of land and buildings held by the Group comprises:

	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Leasehold properties held in Hong Kong under medium-term leases	1,087	1,450
Leasehold properties held in Hong Kong under long leases	17,200	29,510
Held in the PRC under medium-term land use rights	318	3,264
Held in the PRC under long-term land use rights	1,959	2,840
Freehold properties held in the United States of America	–	10,451
	<u>20,564</u>	<u>47,515</u>

The properties held for development of the Group comprise:

	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Freehold property held in the British Virgin Islands	89,490	89,395
Freehold properties held in the United States of America	11,700	12,806
Properties held in the PRC		
– Medium-term land use rights	2,949	2,949
– Long-term land use rights	147,134	147,134
	<u>251,273</u>	<u>252,284</u>

The net book values of property, plant and equipment of the Group includes an aggregate amount of HK\$14,407,000 (2002: HK\$8,644,000) in respect of assets held under finance leases.

The directors reviewed the carrying amount of property, plant and equipment of the Group at the balance sheet date and identified that:

- (a) as certain of its subsidiaries ceased their operations, an impairment loss on certain leasehold properties, leasehold improvements and furniture and fixtures with an aggregate amount of HK\$6,202,000 (2002: HK\$4,100,000), representing the difference between the recoverable amounts and the carrying amounts of these assets, has been identified and recognised in the consolidated income statement.

In addition, the directors of the Company have reviewed the recoverable amount of the remaining leasehold properties at 30 June 2003. An impairment loss of HK\$11,678,000 (2002: Nil) has been recognised and charged to the consolidated income statement for the year ended 30 June 2003.

- (b) the recoverable amounts of the freehold properties held for development in the United States of America were lower than their carrying amounts by reference to their disposal values contracted subsequent to the balance sheet date. An impairment loss of HK\$1,106,000 (2002: Nil) has been charged to the consolidated income statement.

## 15. LONG-TERM RECEIVABLE

Long-term receivable of the Group was unsecured, interest free and was fully provided for during the year.

## 16. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted investments, at cost	67,716	67,716
Amounts due from subsidiaries	882,511	871,087
	<u>950,227</u>	<u>938,803</u>
<i>Less:</i> Impairment loss recognised	(663,900)	(623,900)
	<u>286,327</u>	<u>314,903</u>
Amounts due to subsidiaries	<u>(86,707)</u>	<u>(81,553)</u>

The amounts due from (to) subsidiaries are unsecured, interest free and have no fixed terms of repayment. The Company and the subsidiaries agreed not to request repayment within twelve months from the balance sheet date and the amounts are therefore shown as non-current.

Particulars of the principal subsidiaries at 30 June 2003 are as follows:

Name of subsidiary	Place of incorporation or registration/ operation	Nominal value of issued and paid up share capital/ registered capital	Proportion of issued share capital/registered capital held by the Company <i>(Note a)</i>	Principal activities
AEL (Bahamas) Limited	Bahamas/ PRC	Ordinary US\$5,000 Redeemable preference US\$300	100%	Property holding
Applied (China) Limited ("ACL")	Bermuda	Ordinary HK\$11,492,000	74.99%	Investment holding
Applied Action (BVI) Limited	British Virgin Islands/PRC	Ordinary US\$100	100%	Investment holding
Applied Electronics Limited	Hong Kong	Ordinary HK\$86,000,000	100%	Investment holding
Applied Electronics (Bahamas) Limited	Bahamas	Ordinary US\$5,000 Redeemable preference US\$300	100%	Investment holding
Applied International Limited	Hong Kong	Ordinary HK\$1,000,000	100%	Property, plant and equipment holding
Applied Properties (Huang Jiang) Limited S.A.	Republic of Panama/ PRC	Ordinary US\$200	100%	Property holding in the PRC
Applied Properties (HuiYang) Limited S.A.	Republic of Panama/ PRC	Ordinary US\$200	100%	Property holding in the PRC

**APPENDIX I**
**FINANCIAL INFORMATION OF THE GROUP**

Name of subsidiary	Place of incorporation or registration/operation	Nominal value of issued and paid up share capital/registered capital	Proportion of issued share capital/registered capital held by the Company (Note a)	Principal activities
Applied Properties (Jiang Men) Limited S.A.	Republic of Panama/PRC	Ordinary US\$200	100%	Property holding in the PRC
Applied Properties Limited	Hong Kong	Ordinary HK\$10,000	100%	Property holding
江門實力發展(地產)有限公司 (Applied Properties (Jiangmen) Limited) (Note b)	PRC	Registered capital US\$11,720,000	100%	Property development
Batimate Limited	British Virgin Islands	Ordinary US\$2	100%	Investment holding
Elite Industries Limited	British Virgin Islands	Ordinary US\$1	100%	Investment holding
惠陽縣淡水新陽城建設有限公司 (Note b)	PRC	Registered capital HK\$50,000,000	60%	Property development
Incar Electronics Limited	Hong Kong	Ordinary HK\$7,545,000	74.99%	Property investment
iQuorum Cybernet Limited (“iQuorum”)	Hong Kong	Ordinary HK\$574,630,911	74.99%	Investment holding
Jardine Arizona Limited	United States of America	Ordinary US\$1,000	100%	Property development
Quorum Bio-tech Limited	Hong Kong	Ordinary HK\$10,000,000	66.74%	Investment holding
盈聯多科技企業(深圳)有限公司 (Quorum Electronics (Shenzhen) Co., Ltd.) (Note c)	PRC	Registered capital HK\$10,000,000	100%	Property, plant and equipment holding
Quorum Global Limited	Hong Kong	Ordinary HK\$100	100%	Investment holding
Quorum Global (AU) Pty Ltd.	Australia	Ordinary AUD200,000	100%	Trading of Chinese medical herbs and nano products
Quorum Global (NA) Inc.	United States of America	Ordinary US\$0.01	100%	Trading of Chinese medical herbs and nano products
Quorum Island (BVI) Limited	British Virgin Islands	Ordinary US\$10,000	100%	Property holding
Quorum Venture Canada Inc.	Canada	Ordinary C\$1	100%	Property holding
Renima, Inc.	California	Ordinary US\$100,000	100%	Property holding



Name of subsidiary	Place of incorporation or registration/operation	Nominal value of issued and paid up share capital/registered capital	Proportion of issued share capital/registered capital held by the Company (Note a)	Principal activities
RJP Finance Limited	Hong Kong	Ordinary HK\$200,000	74.99%	Provision of financial services
RJP International Limited	Hong Kong	Ordinary HK\$500,000	74.99%	Provision of management services
Sharp Win Industrial Limited	Hong Kong	Ordinary HK\$2,500,000	30%	Manufacturing and trading of electronic products
Starwin Investments Limited	Hong Kong	Ordinary HK\$10,000	74.99%	Property investment
Sound Collection Limited	Hong Kong	Ordinary HK\$2	100%	Property, plant and equipment holding
Tronicwatch Limited	Hong Kong	Ordinary HK\$10,000	74.99%	Property investment
Wideland Electronics Limited	Hong Kong	Ordinary HK\$200,000	51%	Manufacturing and trading of electronic products
天健生物(深圳)有限公司 (Note b)	PRC	Ordinary HK\$10,000,000	66.74%	Manufacturing and trading of Chinese medicinal herbs

*Notes:*

- (a) The above principal subsidiaries are owned indirectly by the Company, with the exception of Applied Electronics Limited and Batimate Limited.
- (b) These PRC subsidiaries are sino-foreign joint ventures established in the PRC.
- (c) The PRC subsidiary is wholly foreign owned enterprises established in the PRC.

None of the subsidiaries had any debt securities subsisting at the balance sheet date or at any time during the year, except for Quorum Global (NA) Inc. which has issued a convertible note of HK\$780,000, in which the Group has no interest (note 33).

The above list includes the subsidiaries of the Company which, in the opinion of the directors, principally affected the results of the year or assets and liabilities of the Group. To give details of all other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

## 17. OTHER INVESTMENTS

Other investments of the Group represent antiques held for long-term investment purpose. At 30 June 2003, the carrying amount of other investments is reduced to their recoverable amounts which is determined by reference to the market selling price of similar antiques. Accordingly, an impairment loss of HK\$38,968,000 (2002: Nil) has been recognised and charged to the consolidated income statement.

## 18. OTHER SECURITIES

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Hong Kong listed securities, at cost	22,686	22,686	2,756	2,756
Overseas listed securities, at cost	449	558	–	–
Unlisted investments, at cost	619	3,119	–	–
	<u>23,754</u>	<u>26,363</u>	<u>2,756</u>	<u>2,756</u>
<i>Less:</i>				
Unrealised loss on revaluation	(15,991)	(14,460)	(1,787)	(1,517)
Impairment loss recognised	(619)	(3,119)	–	–
	<u>7,144</u>	<u>8,784</u>	<u>969</u>	<u>1,239</u>
At fair value	<u>7,144</u>	<u>8,784</u>	<u>969</u>	<u>1,239</u>
Market value of listed securities	<u>7,144</u>	<u>8,784</u>	<u>969</u>	<u>1,239</u>

## 19. GOODWILL

	THE GROUP HK\$'000
<b>COST</b>	
At 1 July 2002 and 30 June 2003	<u>1,100</u>
<b>AMORTISATION</b>	
At 1 July 2002	110
Provided for the year	<u>220</u>
At 30 June 2003	<u>330</u>
<b>NET BOOK VALUES</b>	
At 30 June 2003	<u>770</u>
At 30 June 2002	<u>990</u>

Goodwill is amortised on a straight line basis over a period of 5 years.

**20. NEGATIVE GOODWILL**

	<b>THE GROUP</b> <i>HK\$'000</i>
GROSS AMOUNT	
At 1 July 2002 and 30 June 2003	46,519
RELEASED TO INCOME	
At 1 July 2002	(400)
Released in the year	(2,326)
At 30 June 2003	(2,726)
CARRYING AMOUNTS	
At 30 June 2003	<u>43,793</u>
At 30 June 2002	<u>46,119</u>

The negative goodwill is released to income on a straight line basis of 20 years.

**21. INVENTORIES**

	<b>THE GROUP</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	6,490	6,802
Work in progress	736	776
Finished goods	3,105	1,147
	<u>10,331</u>	<u>8,725</u>

The above inventories are stated at cost.

**22. TRADE AND OTHER RECEIVABLES**

The Group allows an average credit period from 30 to 90 days to its trade customers other than major customers.

Included in trade and other receivables of the Group are trade debtors of HK\$23,870,000 (2002: HK\$30,799,000) and their aging analysis is as follows:

	<b>THE GROUP</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 90 days	15,887	24,246
More than 90 days and within 180 days	7,983	6,553
	<u>23,870</u>	<u>30,799</u>

**23. SHORT-TERM LOANS RECEIVABLE**

The short-term loans receivable of the Group are unsecured and carry interest based on commercial rates.

**24. TRADE AND OTHER PAYABLES**

Included in trade and other payables of the Group are trade payables of HK\$14,295,000 (2002: HK\$19,249,000) and their aging analysis is as follows:

	<b>THE GROUP</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 90 days	10,496	13,966
More than 90 days and within 180 days	2,499	3,961
More than 180 days	1,300	1,322
	<u>14,295</u>	<u>19,249</u>

**25. AMOUNT DUE TO A DIRECTOR**

The amount of the Group is unsecured, non-interest bearing and has no fixed terms of repayment.

**26. BANK AND OTHER BORROWINGS**

	<b>THE GROUP</b>		<b>THE COMPANY</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
The bank and other borrowings comprise:				
Bank loans	73,154	80,007	–	–
Import loans	10,678	13,536	–	–
Bank overdrafts	8,576	4,198	264	–
Other loans	61,098	55,315	24,098	18,024
Loan from a minority shareholder of a subsidiary	5,198	–	5,198	–
	<u>158,704</u>	<u>153,056</u>	<u>29,560</u>	<u>18,024</u>
Secured	91,498	95,877	–	–
Unsecured	67,206	57,179	29,560	18,024
	<u>158,704</u>	<u>153,056</u>	<u>29,560</u>	<u>18,024</u>

The above bank and other borrowings are repayable as follows:

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Within 1 year	127,074	116,400	29,560	18,024
Between 1 to 2 years	2,592	3,297	–	–
Between 2 to 5 years	7,659	9,411	–	–
Over 5 years	21,379	23,948	–	–
	<u>158,704</u>	<u>153,056</u>	<u>29,560</u>	<u>18,024</u>
<i>Less:</i> Amount due within one year shown under current liabilities	<u>(127,074)</u>	<u>(116,400)</u>	<u>(29,560)</u>	<u>(18,024)</u>
Amount due after one year	<u>31,630</u>	<u>36,656</u>	<u>–</u>	<u>–</u>

The loan from a minority shareholder of a subsidiary is unsecured, interest-bearing at 12% and will be repayable within one year.

## 27. OBLIGATIONS UNDER FINANCE LEASES

	THE GROUP			
	Minimum lease payments		Present value of minimum lease payments	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
The maturity of obligations under finance leases is as follows:				
Within 1 year	6,029	4,130	5,709	3,743
Between 1 to 2 years	3,429	1,921	3,321	1,800
Between 2 to 5 years	462	556	520	529
	<u>9,920</u>	<u>6,607</u>	<u>9,550</u>	<u>6,072</u>
<i>Less:</i> Finance charges relating to future periods	<u>(370)</u>	<u>(535)</u>	<u>–</u>	<u>–</u>
Present value of lease obligations	<u>9,550</u>	<u>6,072</u>	9,550	6,072
<i>Less:</i> Amount due within one year shown under current liabilities			<u>(5,709)</u>	<u>(3,743)</u>
Amount due after one year			<u>3,841</u>	<u>2,329</u>

The average lease term is two years. For the year ended 30 June 2003, the average effective borrowing rate was 8.56% (2002: 11.36%). Interest rates were fixed at the contract date. All leases are on a fixed repayment basis and no arrangement have been entered into for contingent rental payment. The lease obligations are denominated in Hong Kong dollar.

## 28. SHARE CAPITAL

	Number of ordinary shares of HK\$0.20 each	Amount HK\$'000
<i>Authorised:</i>		
Balance at 1 July 2001, 1 July 2002 and 30 June 2003	2,000,000,000	400,000
<i>Issued and fully paid:</i>		
Balance at 1 July 2001, 1 July 2002 and 30 June 2003	941,080,745	188,216

## WARRANTS

On 2 May 2000, the Company made a bonus issue of warrants on the basis of one warrant for every five shares. These warrants entitle the holders to subscribe in cash for new shares of the Company of HK\$0.20 each at subscription price of HK\$0.48 per share, subject to adjustment, at any time from 4 May 2000 up to and including 30 April 2004. At 30 June 2003, the Company had outstanding warrants of HK\$90,880,000 (2002: HK\$90,880,000). Exercise in full of such warrants would result in the issue of approximately 189,334,000 (2002: 189,334,000) shares at a subscription price of HK\$0.48 per share, subject to adjustment.

## SHARE OPTION SCHEMES

The directors and employees of the Company and its subsidiaries are entitled to participate in the share option schemes operated by the Company and ACL. Details of these schemes are as follows:

## (a) Share options of the Company

*1997 Scheme*

The Company's share option scheme adopted on 28 May 1997 (the "1997 Scheme") for the primary purpose of providing incentives to directors and eligible employees and was terminated on 16 September 2002.

Under the 1997 Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company for a consideration of HK\$1 for each lot of share options granted. Options granted should be accepted within 30 days from the date of grant.

The exercise price is determined by the directors of the Company, and is the higher of the nominal value of the Company's shares and an amount which is not less than 80% of the average closing price of the shares for the five trading days immediately preceding the option is granted.

The total number of shares in respect of which options may be granted under the 1997 Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time.

Options granted under the 1997 Scheme are exercisable within a period of five years from the date the options are granted.

Details of share options granted under the 1997 Scheme to the directors of the Company are as follows:

	Date of grant	Exercisable period	Exercise price HK\$	Number of shares to be issued upon exercise of the share options		
				Options outstanding at 1.7.2001 and 1.7.2002	Lapsed during the year	Options outstanding at 30.6.2003
Directors	3 July 1997	3.7.1997 to 2.7.2002	0.36	15,400,000	(15,400,000)	–

Other than the share options disclosed above, no share options were held by the employees of the Group.

#### *2002 Scheme*

On 16 September 2002, the Company adopted a new share option scheme (the “2002 Scheme”) for the primary purpose of providing incentives to directors and eligible employees. The 2002 Scheme will expire on 15 September 2012. Under the 2002 Scheme, the board of directors of the Company may grant options to any employee, including executive directors, or consultants of the Company and/or its subsidiaries, to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the 2002 Scheme is not permitted to exceed the higher of 10% of the shares of the Company in issue at the date of adoption of the 2002 Scheme. The number of shares in respect of which options may be granted to any individual is not permitted to exceed the higher of 1% of the number of shares issued and issuable under the 2002 Scheme or any other limit as may be permitted under the Rules Governing the Listing of Securities on the Stock Exchange.

Options granted must be taken up within 30 days of the date of grant, upon payment of HK\$1 per grant. Options may be exercised at any time from the date of grant to the 10th anniversary of the date of grant. In each grant of options, the board of directors may at their discretion determine the specific exercise period. The exercise price is determined by the directors of the Company, and will be less than the higher of (i) the closing price of the Company’s share on the date of grant; (ii) the average closing price of the Company’s shares for the five business days immediately preceding the date of grant, and (iii) the nominal value of the Company’s shares.

No option has been granted under the 2002 Scheme since its adoption.

#### **(b) Share options of ACL**

##### *ACL 2002 Scheme*

On 16 September 2002, ACL adopted a share option scheme (the “ACL 2002 Scheme”). The details of the ACL 2002 Scheme are the same as the 2002 Scheme of the Company.

No option has been granted under the ACL 2002 Scheme since its adoption.

## 29. TREASURY SHARES

	Number of treasury shares	Amount HK\$'000
Balance at 1 July 2001, 1 July 2002 and 30 June 2003	<u>48,329,000</u>	<u>12,546</u>

Treasury shares represent ordinary shares of the Company held by iQuorum before iQuorum is a subsidiary of the Company. There has been no movement of the treasury shares since iQuorum became a subsidiary of the Company.

In the opinion of the directors, these treasury shares are held for long-term and will be disposed of at an appropriate time.

## 30. RESERVES

	Shares premium account HK\$'000	Investment revaluation reserve HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
THE COMPANY						
At 1 July 2001	3	(1,193)	10,892	204,610	(180,820)	33,492
Deficit on revaluation of other securities	–	(323)	–	–	–	(323)
Net loss for the year	–	–	–	–	(3,855)	(3,855)
At 30 June 2002	3	(1,516)	10,892	204,610	(184,675)	29,314
Deficit on revaluation of other securities	–	(270)	–	–	–	(270)
Net loss for the year	–	–	–	–	(47,317)	(47,317)
At 30 June 2003	<u>3</u>	<u>(1,786)</u>	<u>10,892</u>	<u>204,610</u>	<u>(231,992)</u>	<u>(18,273)</u>

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

At 30 June 2003, the Company has no reserve available for distribution to the shareholders (2002: profit available for distribution of HK\$19,935,000).

## 31. AMOUNT DUE TO A MINORITY SHAREHOLDER OF A SUBSIDIARY

The amount due to a minority shareholder of a subsidiary of the Group is unsecured and non-interest bearing. The minority shareholder agreed not to request repayment within twelve months from the balance sheet date and the amount is therefore shown as non-current.



## 32. DEFERRED TAXATION

The movements of deferred taxation during the year are as follows:

	THE GROUP		THE COMPANY	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At beginning of the year	647	664	-	-
Movement for the year (note 11)	(263)	(17)	-	-
At end of the year	<u>384</u>	<u>647</u>	<u>-</u>	<u>-</u>

At the balance sheet date, the major components of the deferred tax (assets) liabilities, recognised and unrecognised, were as follows:

	Recognised		Unrecognised	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP				
Tax effect of timing differences attributable to:				
Difference of tax allowances and depreciation charged in the financial statements	561	647	451	1,646
Taxation losses	(177)	-	(76,149)	(62,014)
	<u>384</u>	<u>647</u>	<u>(75,698)</u>	<u>(60,368)</u>
THE COMPANY				
Tax effect of timing differences attributable to:				
Taxation losses	-	-	(5,026)	(4,553)

Deferred tax asset has not been recognised in the financial statements in respect of taxation losses available to offset future profits as it is not certain that the taxation losses will be utilised in the foreseeable future.

Deferred tax (credit) charge for the year, which has not been recognised in the income statement, are as follows:

	<b>2003</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i>
<b>THE GROUP</b>		
Tax effect of timing differences attributable to:		
Difference of tax allowances and depreciation charged in the financial statements	(1,349)	(33)
Taxation losses arising	(8,321)	(2,507)
Effect of change in tax rate	(5,660)	–
	<u>(15,330)</u>	<u>(2,540)</u>
<b>THE COMPANY</b>		
Tax effect of timing differences attributable to:		
Taxation losses (arising) utilised	(46)	53
Effect of change in tax rate	(427)	–
	<u>(473)</u>	<u>53</u>

### 33. CONVERTIBLE NOTE

The convertible note of the Group (the “Note”) which issued on 6 June 2003, is unsecured, held by an independent third party and interest-bearing at 12% per annum. The Note, which is transferable in whole or in part, confers rights on the holder to convert into shares in Quorum Global (NA) Inc., a subsidiary of the Company, at an initial conversion price per share of Quorum Global (NA) Inc. which equal to the first round offering price with no dilution on the shares of Quorum Global (NA) Inc.. Unless otherwise converted, the principal amount of the Note will be repayable by Quorum Global (NA) Inc. on 6 June 2005.

The Note has not been converted since its issue.

### 34. CONTINGENT LIABILITIES

At 30 June 2003, the Company issued guarantees of HK\$37,000,000 (2002: HK\$37,000,000) in respect of other loans granted to a subsidiary.

### 35. OPERATING LEASE COMMITMENTS

	<b>THE GROUP</b>	
	<b>2003</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i>
Minimum lease payments paid in respect of properties under operating leases	<u>6,952</u>	<u>1,863</u>

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	<b>THE GROUP</b>	
	<b>2003</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i>
Within one year	5,739	4,832
In the second to fifth year inclusive	5,157	6,018
Over five years	–	568
	<u>10,896</u>	<u>11,418</u>

Operating lease payments represent rentals payable by the Group for certain of its offices and warehouse properties. The average lease term is 3 to 5 years. Rentals are fixed and no arrangements has been entered into for contingent rental payments.

The Company had no operating lease commitments at the balance sheet date.

### 36. OPERATING LEASE ARRANGEMENTS

At the balance sheet date, the Group had contracted with tenants for future minimum lease payments, which represent rentals receivable by the Group for its investment properties, under non-cancellable operating leases which fall due as follows:

	<b>2003</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i>
Within one year	7,782	7,619
In the second to fifth year inclusive	4,375	3,954
	<u>12,157</u>	<u>11,573</u>

The properties are expected to generate rental yields of 7.2% on an ongoing basis. Investment properties held with a carrying value of HK\$61,820,000 have committed tenants for the next year.

### 37. CAPITAL COMMITMENTS

At the balance sheet date, the Group had capital expenditure committed as follows:

	<b>2003</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i>
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	<u>3,693</u>	<u>10,838</u>

The Company had no capital commitments at the balance sheet date.

### 38. DISPOSAL OF SUBSIDIARIES

	<b>2003</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i>
Net assets disposed of		
Bank balances and cash	–	18
Loss on disposal of subsidiaries	–	(18)
	<u>–</u>	<u>–</u>
Satisfied by		
Cash	<u>–</u>	<u>–</u>

Analysis of net outflow of cash and cash equivalents in respect of the disposal of subsidiaries:

	<b>2003</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i>
Cash consideration received	–	–
Bank balances and cash disposed of	–	(18)
	<u>–</u>	<u>(18)</u>

The cash flows contributed or utilised by the subsidiaries disposed of during year ended 30 June 2002 were not significant.

**39. MAJOR NON-CASH TRANSACTION**

During the year, the Group entered into a finance lease arrangement in respect of the acquisition of assets with a total capital value at the inception of the lease of HK\$10,398,000 (2002: HK\$5,127,000).

**40. PLEDGE OF ASSETS**

At 30 June 2003, the Group pledged its bank deposits, investment properties and property, plant and equipment amounting to HK\$3,219,000 (2002: HK\$4,702,000), HK\$73,920,000 (2002: HK\$135,120,000) and HK\$18,287,000 (2002: HK\$41,410,000), respectively, to secure general banking facilities granted to the Group.

**41. POST BALANCE SHEET EVENTS**

Subsequent to 30 June 2003, the following significant events of the Group occurred:

- (a) The Group disposed of certain investment properties at an aggregate consideration of HK\$9,545,000.
- (b) On 16 October 2003, the Group entered into an agreement to dispose of its 59% equity interest in a subsidiary at a consideration of HK\$61 million.

**42. RELATED PARTIES TRANSACTION**

At 30 June 2003, two directors of the Company, had outstanding joint and several guarantees, issued in favour of a bank in respect of credit facilities granted by the bank to a subsidiary amounting to approximately HK\$24,373,000 (2002: HK\$25,900,000).

**43. RETIREMENT BENEFITS SCHEME**

The Group operates a defined contribution retirement scheme (the "Defined Contribution Scheme") for certain qualifying employees. The assets of the Defined Contribution Scheme are held separately from those of the Group in funds under the control of trustees.

The retirement benefits cost of the Defined Contribution Scheme charged to the income statement represents contributions payable to the fund by the Group at rates specified in the rules of the scheme. Where there are employees who leave the scheme prior to vesting fully in the contribution, the contributions payable by the Group are reduced by the amount of forfeited contributions.

At the balance sheet date, there was no significant forfeited contributions which arose upon employees leaving the Defined Contribution Scheme and which was available to reduce the contributions payable in future years.

With effective from 1 December 2000, the Group has joined a mandatory provident fund scheme (the "MPF Scheme") for all other qualifying employees. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contributions payable in future years.

The retirement benefits cost of the MPF Scheme charged to the income statement represents contributions payable to the fund by the Group at rates specified in the rules of the MPF Scheme.

## 3. PARTICULARS OF MAJOR PROPERTIES

Particulars of investment properties held by the Group at 30 June 2003 are as follows:

Name/location	Lease expiry	Type	Effective % held
<i>Hong Kong</i>			
Units 4101–2 on 41st Floor and Units 4203–4 on 42nd Floor, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong	2055	C	74.99
Room 1206–7, Leader Industrial Centre, 57–59 Au Pui Wan St., Fo Tan, Shatin, New Territories	2047	C	51
House No. 45, 5th Street, Section M, Fairview Park, Yuen Long, New Territories	2047	R	51
Flat A on 1st Floor, Flat B on 1st Floor, 2nd Floor, 3rd Floor, the roof and carpark Nos. 1, 2, 3, 4, 5 and 7, Severn Villa, No. 3, Severn Road, The Peak, Hong Kong	2070	C	100

<b>Name/location</b>	<b>Lease expiry</b>	<b>Type</b>	<b>Effective % held</b>
<i>The People's Republic of China (excluding Hong Kong)</i>			
Level 1 & 2 No. 42, Zhan Qian Road, Zi Pian B Qu, Guangdong Province	2042	C	100
South Portion of Starmate Industrial Park, Tutang District, Changping Town, Dongguan, Guangdong Province	2044	R/C	74.99
North Portion of Starmate Industrial Park, Tutang District, Changping Town, Dongguan, Guangdong Province	2044	R/C	74.99
Unit No. 4 on 72nd Floor Office Tower, CITIC Plaza No. 233 Tianhe Road Tianhe District, Guangzhou, Guangdong Province	2044	C	74.99
<i>Canada</i>			
1898 West 61st Avenue, Vancouver, British Columbia	Freehold	R	100

Particulars of properties held for development by the Group at 30 June 2003 are as follows:

Name/location	Lease expiry	Type	Gross area%	Effective held	Stage of completion	Anticipated completion
<i>The British Virgin Islands</i>						
Block #3840A Parcel #4,8 Block #3838A Parcel #1,7 Block #3640A Parcel #9 Beef Island, Bellamy Cay and Little Cay	Freehold	R/C	682 acres*	100	Pending for development	N/A
<i>The People's Republic of China (excluding Hong Kong)</i>						
A site at Ping Hu Town, Baoan County, Shenzhen, Guangdong Province	2041	R/C	46,280 sq.m.*	100	Pending for development	N/A
A site at Song Bai Keng, Lang Wan, Jiangmen City, Guangdong Province	2063	R/C	91,550 sq.m.*	100	Pending for development	N/A
Sun Young City, Guangdong Province	2043 to 2063	R/C	1,049,791 sq.m.*	60	Pending for development	N/A
<i>United States of America</i>						
Lot 2, One Columbus Plaza, Maricopa County, Phoenix, Arizona	Freehold	C	18,273 sq.m.*	100	Pending for development	N/A
Type of properties:	R – residential C – commercial					

\* Areas for properties represent site areas

*The following is the text of the letter, summary of valuation and valuation certificates received from RHL Appraisal Limited, an independent valuer, prepared for the purpose of inclusion in this circular.*



Member of RHL International Property Consultants  
永利行國際物業顧問集團成員

**RHL Appraisal Ltd.**  
**永利行評值顧問有限公司**

Surveyors, Valuers, Land & Property Consultants  
Room 1010, Star House, Tsimshatsui,  
Kowloon, Hong Kong

12 January 2004

The Directors  
Applied (China) Limited  
Suite 4103-5  
41st Floor  
Far East Finance Centre  
16 Harcourt Road  
Central  
Hong Kong

Dear Sirs,

**Re: Valuation of Properties in Hong Kong and in the People's Republic of China (the "PRC")**

**1. INSTRUCTION**

In accordance with the instructions from **Applied (China) Limited** (referred to as the "Company"), we have valued all property (referred to as the "Property") situated in Hong Kong and the People's Republic of China (referred to as the "PRC") held by the iQuorum CyberNet Limited or its subsidiaries (the "Outgoing Group"). We confirm that we have carried out property inspection, made relevant enquires and obtained such further information as we consider necessary for the purpose of providing our opinion of the open market value of the Property as at 31 October 2003 (referred to as the "valuation date").

This letter, which forms part of our valuation report explains the basis and methodology of valuation and set out assumptions made and other qualifications.



**2. BASIS OF VALUATION**

Our valuation is our opinion of the open market value which we would define as intended to mean “the best price at which the sale of an interest in property would have been completed unconditionally for cash consideration on the date of valuation assuming:

- (i) a willing seller;
- (ii) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of price and terms and for the completion of the sale;
- (iii) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;
- (iv) that no account is taken of any additional bid by a purchaser with a special interest; and
- (v) that both parties to the transaction had acted knowledgeably, prudently and without compulsion.”

**3. VALUATION METHODOLOGY**

The properties which are occupied by the Company or left vacant have been valued on an open market basis assuming sale with the benefit of immediate vacant possession and by reference to comparable sales evidence as available on the market.

For those properties which were subject to tenancies as at the date of valuation, we have also adopted the “Investment Method” on the basis of capitalization of the net rental incomes with due allowance for reversionary income potential.

Properties numbered 5 and 6 have no commercial value on the reason that the land grant procedures for them have not yet been completed as at the valuation date.

The depreciated replacement costs as disclosed in the footnote of property numbered 5 and 6 were arrived at based on the new replacement cost of their buildings and other site works from which deductions are then made to allow for age, conditions, functional obsolescence, etc. Our opinion of the depreciated replacement costs is subject to the assumption that prospective earnings would provide a reasonable return on that property plus adequate net working capital and the value of any assets not included in this valuation.

**4. ASSUMPTIONS**

Except the properties numbered 5 and 6, our valuation has been made on the assumption that the owners sell the properties on the open market in their existing states without the benefit of deferred terms contracts, leasebacks, joint ventures, management agreements or any similar arrangements which would serve to affect their values of the properties.

We have also assumed that there is no legal impediment to the Outgoing Group's obtaining the Building and Land Ownership Certificate for property numbered 7.

As the properties save for the properties numbered 5 and 6, are being held by the Company on long term Government Leases or Land Use Rights Contracts, we have assumed that the Company has free and uninterrupted rights to use the properties for the whole of the unexpired terms of their respective Government Leases or Land Use Right Contracts subject to payment of annual land use fees and all requisite land premium / purchase consideration payable has been fully settled. Vacant possession is assumed for properties owned and occupied by the Company.

Other special assumptions in relation to each property, if any, have been stated out in the footnotes of the valuation certificates for each corresponding property.

**5. TITLE INVESTIGATION**

We have been, in some instances, provided with extracts of title documents relating to the properties. In addition, we have caused searches to be made at the Land Registry for the properties in Hong Kong. All documents have been used for reference only.

In the respect of the properties located in the PRC, we have also relied upon the legal opinion provided by the PRC legal adviser, Hills & Co (廣東君道律師事務所), to the Company on the relevant laws and regulations in the PRC and on the Outgoing Group's land use rights in the properties as at the valuation date.

**6. LIMITING CONDITIONS**

We have inspected the exterior and the interior of the properties but no structural survey has been made. In the course of our inspection, we did not note any serious defects. We are not, however, able to report that the properties are free from rot, infestation or any other structural defects. No tests were carried out on any of the services. All dimensions, measurements and areas are approximate.

Moreover, we have not carried out site investigation to determine the suitability of the ground condition or the services for any future development. We have assumed that these aspects are satisfactory and that no extraordinary expense or delay will incurred during the construction period.

We have relied to a considerable extent on the information provided by the Company and have accepted advice given to us by the Company on such matters as statutory notices, easements, tenure, occupation, site and floor areas and in the identification of those properties in which the Company has a valid interest.

With the exception of the properties numbered 5 and 6, no allowance has been made in our valuation for any charges, mortgages or amount owing on any properties nor for any expense or taxation which may be incurred in effecting a sale. We have assumed that they are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

We have no reason to doubt the truth and accuracy of the information as provided to us by the Company. We have relied on the Company's confirmation that no material facts have been omitted from the information supplied.

According to the information provided by the Company, the potential tax liability which would arise on the disposal of the properties situated in the PRC are business tax, PRC land capital gain tax and PRC corporate tax. In the course of our valuation, we have neither verified nor taken into account such tax liability. As advised by the Company, no tax liability would arise if the properties were to be sold at the amount of valuation. In respect of the properties which are held by the Company for investment in Hong Kong, no tax liability will arise if the properties are to be sold at the amount of valuation.

Our valuations have been prepared in accordance with the Guidance Notes on the Valuation of Property Assets (2nd Edition) published by the Hong Kong Institute of Surveyors and compiled with all the requirements contained in Chapter 5 of the Listing Rules and the Practice Notes 12 issued by the Stock Exchange of Hong Kong Limited.

## **7. REMARKS**

We have valued the properties in Hong Kong Dollars (\$). The conversion of Renminbi (RMB) into Hong Kong Dollars is based on the factor of \$1.00 to RMB1.06 with reference to the prevailing exchange rate on the valuation date.

We enclosed herewith the summary of valuation and the valuation certificates.

Yours faithfully,  
For and on behalf of  
**RHL Appraisal Ltd.**

**Wayne W.K. Lee**  
*MRICS MHKIS RPS(GP)*  
*Director*

**Tse Wai Leung**  
*BSc MRICS MHKIS RPS(GP)*  
*Director*

*Wayne W.K. Lee is a member of the Royal Institution of Chartered Surveyors, an Associate of the Hong Kong Institute of Surveyors and a Registered Professional Surveyor in General Practice. Tse Wai Leung, who is a member of the Royal Institution of Chartered Surveyors, an Associate of the Hong Kong Institute of Surveyors, a Registered Professional Surveyor in General Practice and a qualified real estate appraiser in the PRC. Both of them have over eight years' experience in valuation of properties in Hong Kong and in the PRC.*

## SUMMARY OF VALUATION

Property	Open market value as at 31 October 2003	Interest attributable to the Company	Value of property interest attributable to the Company as at 31 October 2003
<b>Group I – Property Interests held by the Outgoing Group in Hong Kong</b>			
1. Unit Nos. 4101-2 on 41st Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong.	HK\$17,000,000	100%	HK\$17,000,000
2. Unit Nos. 4103-5 on 41st Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong.	HK\$17,200,000	100%	HK\$17,200,000
3. Unit Nos. 4203-4 on 42nd Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong.	HK\$16,600,000	100%	HK\$16,600,000
4. Units B on 1st Floor, 2nd Floor, 3rd Floor together with the roof thereof, Garden B appertaining thereto, Unit A on 1st Floor, Garden A and Car Parking Spaces 1, 2, 3, 4, 5 and 7 on Ground Floor, Severn Villa, No. 3 Severn Road, the Peak, Hong Kong.	HK\$38,000,000	100%	HK\$38,000,000

Property	Open market value as at 31 October 2003	Interest attributable to the Company	Value of property interest attributable to the Company as at 31 October 2003
<b>Group II – Property Interests held by the Outgoing Group in the PRC</b>			
5. North Portion of Starmate Industrial Park, Tutang District, Changping Town, Dongguan, Guangdong Province, the PRC.	No Commercial Value	100%	No Commercial Value
6. South Portion of Starmate Industrial Park, Tutang District, Changping Town, Dongguan, Guangdong Province, the PRC.	No Commercial Value	100%	No Commercial Value
7. House No. C11, Regent on the Park, Mission Hills Road, Guanlan Town, Shenzhen, the PRC.	No Commercial Value	100%	No Commercial Value
<b>Grand total:</b>	<b>HK\$88,800,000</b>		<b>HK\$88,800,000</b>

## VALUATION CERTIFICATE

## Group I – Property Interests held by the Outgoing Group in Hong Kong

Property	Description and tenure	Particulars of occupancy	Open market value as at 31 October 2003
1. Unit Nos. 4101-2 on 41st Floor Far East Finance Centre 16 Harcourt Road Hong Kong	<p>The property comprises two office units on the 41st floor of a 45-storey commercial building completed in 1982.</p> <p>The gross floor area of the property is 499.72 square metres (5,379 square feet).</p> <p>The subject lot is held under Conditions of sale No. 11418 for a term of 75 years and is renewable for another 75 years commencing from 23 July 1980.</p>	<p>The property is subject to two tenancies for terms of 2 years expiring on between 31 May 2003 and 16 December 2003 at a total monthly rent of HK\$136,254.</p>	HK\$17,000,000

*Note:* The registered owner of the property is R J P Electronics Limited (a wholly owned subsidiary of the Company).

2. Unit Nos. 4103-5 on 41st Floor Far East Finance Centre 16 Harcourt Road Hong Kong	<p>The property comprises three office units on the 41st floor of a 45-storey commercial building completed in 1982.</p> <p>The gross floor area of the property is 503.72 square metres (5,422 square feet).</p> <p>The subject lot is held under Conditions of sale No. 11418 for a term of 75 years and is renewable for another 75 years commencing from 23 July 1980.</p>	<p>Portion of the property with a gross floor area of 251.86 square metres (2,711 square feet) is subject to a tenancy at a monthly rent of HK\$75,894 on monthly basis whilst the remaining portion of the property is owner-occupied.</p>	HK\$17,200,000
---	--	---	----------------

*Note:* The registered owner of the property is R J P Electronics Limited (a wholly owned subsidiary of the Company).

## VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Open market value as at 31 October 2003
3. Unit Nos. 4203-4 on 42nd Floor Far East Finance Centre 16 Harcourt Road Hong Kong	<p>The property comprises two office units on 42nd floor of a 45-storey commercial building completed in 1982.</p> <p>The gross floor area of the property is 569.12 square metres (6,126 square feet).</p> <p>The subject lot is held under Conditions of sale No. 11418 for a term of 75 years and is renewable for another 75 years commencing from 23 July 1980.</p>	As at the date of our valuation, portion of the property with a gross floor area 496.38 square metres (5,343 square feet) was subject to various tenancies with the latest tenancy expiring on 27 July 2004 at a total monthly rent of HK\$122,183 exclusive of rates and management fee whilst the remaining portion of the property was vacant.	HK\$16,600,000

*Note:* The registered owner of the property is R J P Electronics Limited (a wholly owned subsidiary of the Company).

4. Units B on 1st Floor, 2nd Floor, 3rd Floor together with the roof thereof, Garden B appertaining thereto, Unit A on 1st Floor, Garden A and Car Parking Spaces 1, 2, 3, 4, 5 and 7 on Ground Floor, Severn Villa, No. 3 Severn Road, the Peak, Hong Kong	<p>The property comprises 4 residential units on the 1st, 2nd and 3rd floors with the roof thereof and 6 car parking spaces on ground floor of a 4-storey residential building completed in 1982.</p> <p>The total gross floor area (excluding car parking spaces) and roof area of the property are 6,200 square feet and 1,550 square feet respectively.</p> <p>The subject lot is held under Government Lease for a term of 75 years and is renewable for another 75 years commencing from 13 December 1920.</p>	As at the date of our valuation, the property was vacant and under renovation.	HK\$38,000,000
--	---	--	----------------

*Notes:*

1. The registered owner of the property is Incar Electronics Limited (a wholly owned subsidiary of the Company).
2. The property is subject to a Mortgage to secure general banking facilities in favour of Hang Seng Bank Limited vide Memorial No. 8515028 dated 25 September 2001.

## VALUATION CERTIFICATE

## Group II – Property Interests held by the Outgoing Group in the PRC

Property	Description and tenure	Particulars of occupancy	Open market value as at 31 October 2003
5. North Portion of Starmate Industrial Park, Tutang District, Changping Town, Dongguan, Guangdong Province, the PRC.	The property comprises a site with an area of approximately 28,886.3 square metres.  As at the valuation date, the property was erected with various 2 to 4-storey industrial buildings and staff quarters providing a total gross floor area of approximately 20,315 square metres.	As confirmed by the Company, the property is currently vacant.	No Commercial Value. (Please see note 3)

*Notes:*

- As stipulated in an Investment Certificate (投資證明書) dated 3 May 1994, the property is held by Dongguan Incar Electronics Co., Ltd. (東莞欣佳電子有限公司) which is a wholly-owned subsidiary of the Company.
- The status of title and grant of major approvals and licences relating to the property in accordance with information provided by the Company are as follows:

Land Use Right Contract	No
Land Use Right Certificate	No
Red-line Drawing	No
Permit for Overseas Sales	No
Business Licence	Yes
Investment Certificate	Yes

- The property has no commercial value due to the fact that the land grant procedures including land premium payment for the property have not yet been completed. As at the valuation date, the depreciated replacement cost of the land improvement works in the property is HK\$2,900,000.
- The legal opinion from the PRC legal adviser to the Company on the property is summarized as follows:
  - As Dongguan Incar Electronics Co., Ltd. have not yet completed the land grant procedures for the property, the legal title to the property is not vested in Dongguan Incar Electronics Co., Ltd..
  - With the approval from the relevant government authority of Dongguan, Dongguan Incar Electronics Co., Ltd. shall be able to complete land grant procedures in order to secure valid legal interest in the property. Upon obtaining valid legal interest, Dongguan Incar Electronics Co., Ltd. shall have the right to lease, mortgage or dispose of the property.
- As confirmed by the Company, the current land premium to be incurred for completing land grant procedures for the property is RMB60.1 per square metre of land area (i.e. a total land premium of approximately RMB1,736,066.) shall be payable by Dongguan Incar Electronics Co., Ltd. (東莞欣佳電子有限公司). There are no other outstanding costs payable.



## VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Open market value as at 31 October 2003
6. South Portion of Starmate Industrial Park, Tutang District, Changping Town, Dongguan, Guangdong Province, the PRC.	The property comprises a site with an area of approximately 19,639.9 square metres.  As at the valuation date, the property was erected with various 2 to 4-storey industrial buildings and staff quarters providing a total gross floor area of approximately 26,288.5 square metres.	As confirmed by the Company, the property is currently vacant.	No Commercial Value. (Please see note 3)

*Notes:*

- As stipulated in an Investment Certificate (投資證明書) dated 3 May 1994, the property is held by Dongguan Man Lee Plastic Products Co., Ltd. (東莞萬利塑膠製品有限公司) which is a wholly-owned subsidiary of the Company.
- The status of title and grant of major approvals and licences relating to the property in accordance with information provided by the Company are as follows:

Land Use Right Contract	No
Land Use Right Certificate	No
Red-line Drawing	No
Permit for Overseas Sales	No
Business Licence	Yes
Investment Certificate	Yes

- The property has no commercial value due to the fact that the land grant procedures including land premium payment for the property have not yet been completed. As at the valuation date, the depreciated replacement cost of the land improvement works in the property is HK\$3,700,000.
- The legal opinion from the PRC legal adviser to the Company on the property is summarized as follows:
  - As Dongguan Man Lee Plastic Products Co., Ltd. have not yet completed the land grant procedures for the property, the legal title to the property is not vested in Dongguan Man Lee Plastic Products Co., Ltd..
  - With the approval from the relevant government authority of Dongguan Man Lee Plastic Products Co., Ltd. shall be able to complete land grant procedures in order to secure valid legal interest in the property. Upon obtaining valid legal interest, Dongguan Man Lee Plastic Products Co., Ltd. shall have the right to lease, mortgage or dispose of the property.
- As confirmed by the Company, the land premium to be incurred for completing land grant procedures for the property is RMB60.1 per square metre of land area (i.e. a total land premium of approximately RMB1,180,358,) shall be payable by Dongguan Man Lee Plastic Products Co., Ltd. (東莞萬利塑膠製品有限公司). There are no other outstanding costs payable.

## VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Open market value as at 31 October 2003
7. House No. C11, Regent on the Park, Mission Hills Road, Guanlan Town, Shenzhen, the PRC.	<p>The Mission Hills Golf Club is a multi-functional recreational complex accommodates five 18-hole championship golf courses, a golf clubhouse, a resort hotel and a country club. Low density residential developments in the form of garden houses and low-rise condominium are planned within the Golf Club.</p> <p>The property comprises a 2-storey garden house completed in 1999.</p> <p>The gross floor area and garden area of the property are 191.76 square metres and 508.90 square metres respectively.</p>	As at the date of our valuation, the property was vacant.	No Commercial Value. (Please see note 6)

*Notes:*

1. Pursuant to two sets of Agreement for Sale and Purchase both dated 21 July 2001 and entered into between Shenzhen Guanlanhu Property Development Co., Ltd. ("the Developer") and Tronicwatch Ltd. ("the Purchaser"), a wholly-owned subsidiary of the Company and two sets of Supplemental Agreements both dated 1 August 2000 and entered into by the same parties, the Purchaser acquired Units 603 and 605, Tower B of the subject development ("Units 603 & 605") from the Developer at a total consideration of RMB1,724,800 which has been fully settled by the Outgoing Group.
2. Pursuant to an Agreement dated 7 March 2002 entered into among the Purchaser, Janet Ng who is the ex-owner of the property and B2C.com.hk Ltd. ("B2C"), a wholly-owned subsidiary of the Company, Units 603 and 605 of the Purchaser plus an additional sum of HK\$970,000 paid by B2C were swapped with the property of Janet Ng. After the transaction, the legal interest of the property is vested in B2C.
3. We have assumed that the property is held for a term of 70 years for residential purpose as stated in the land law of PRC.
4. The legal opinion from the PRC legal adviser to the Company on the property is summarized as follows:
  - 4.1 The property was acquired by B2C from a third party by way of property exchange;
  - 4.2 Before the property exchange, B2C, through its associate company, Tronicwatch Ltd., acquired Units 603 and 605, Tower B of the subject development ("Units 603 & 605") from Shenzhen Guanlanhu Property Development Co., Ltd via two sets of Agreement for Sale and Purchase both dated 21 July 2001; and
  - 4.3 After completing the aforesaid property transaction, B2C entered into an Agreement with Janet Ng (the former owner of the subject property) on 7 March 2002, by virtue of which Units 603 & 605 of B2C was swapped with the subject property of Janet Ng. As a result, B2C become the owner of the subject property subject to completion of title registration procedures by B2C.
5. The status of title and grant of major approvals and licences relating to the property in accordance with information provided by the Company are as follows:

Land Use Right Certificate	Yes (in the name of the Developer)
Building and Land Ownership Certificate	Not yet applied for by the Outgoing Group
Agreement for Sale and Purchase	Yes
Permit for Overseas Sales	No
Business Licence	Yes
6. Upon completion of title registration, the open market value of the property attributable to the Outgoing Group is HK\$1,730,000.

*The following is the text of the letter, summary of values and valuation certificate received from Castle of Antiquities Co. Ltd., an independent expert, prepared for the purpose of inclusion in this circular, in connection with its valuation of the antiques.*



古城藝術品有限公司  
Castle of Antiquities Co. Ltd.

12 January 2004

The Board of Directors  
Applied (China) Limited  
41/F., Far East Finance Centre  
Admiralty  
Hong Kong

**Subject : Valuation of Furniture, Ceramics and Paintings (“Antiques”) located at 41/F, Far East Finance Centre, 16 Harcourt Road, Central, Hong Kong and Michelle International Transport Co., Ltd.**

### 1. INSTRUCTIONS

In accordance with the instructions from Applied (China) Ltd (the “Company”), we have assessed the fair market value of the Antiques within its office premises and Michelle International Transport Co. Ltd., an independent third party of the Company which provides storage facilities for part of the Antiques, as at 31 October 2003 (the “valuation date”).

We confirm that we have undertaken inspection of the Antiques, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the fair market value of the Antiques.

### 2. BASIS OF VALUATION

The Antiques have been valued on the basis of fair market value.

Fair market value is defined as the estimated amount at which the assets might be expected to exchange between a willing buyer and a willing seller with equity to both, neither being under any compulsion, each having reasonable knowledge of all relevant facts.

### 3. INVESTIGATION AND ASSUMPTIONS

9 of the Antiques were auctioned by Sotheby, and none of them has been successfully bid to reach the target selling price of the Company.

Due to the downturn in the worldwide economy, many auctioneers have experienced over 50% of their items for auction being unsold.

Before arriving at our opinion in the fair market value of the Antiques, we have physically inspected the Antiques, studied worldwide market conditions relating to antiques in general and considered all relevant factors concerning the antique market based on our experience and expertise in the antique market (including comparing with the highest bid auction price of comparable items and taking into consideration comparable items which have been exhibited in world-class museums in London, New York and Paris).

#### **4. OPINION OF VALUE**

To the best of our knowledge, all data set forth in this report is true and accurate. Although gathered from reliable sources, no guarantee is made nor liability assumed for the accuracy of any data, opinions or estimates identified as being furnished by others which have been used in formulating this analysis.

Based on the investigation described, it is our opinion that as at the valuation date the fair market value of the Antiques is the amount of Hong Kong Dollars Eighteen Million and Eighty Thousand Only (HK\$18,080,000).

Valuation details as at 31 October 2003 are per attached.

#### **5. QUALIFICATION**

We are a company which is principally engaged in the antique business. Mr. Lee Man Shing, our managing director, has been involved in the antique business since 1980 and is the consultant to TT Tsui Museums around the world in London, Chicago, Toronto, Shanghai, Singapore and Hong Kong, and our customers include the top 10 international dealers to world-class museums.

Your faithfully  
For and on behalf of  
**Castles of Antiquities Co. Ltd.**  
**Lee Man Shing**  
*Managing Director*

## APPLIED (CHINA) LIMITED

Valuation for Antiques as at 31 October 2003

DESCRIPTION	QTY	VALUATION
		AT 31-OCT-03 HK\$
(1) Huanghuali half-round table	1	55,000.00
(2) Luohan bed	1	420,000.00
(3) Huanghuali tapered round corner cabinet	1	80,000.00
(4) Huanghuali day bed	1	250,000.00
(5) High waist square table	1	55,000.00
(6) Square stool	2	25,000.00
(7) Huanghuali small square cabinet	2	140,000.00
(8) Drum stools	2	110,000.00
(9) Folding chair	1	105,000.00
(10) Chi Chih Mu curio box	1	30,000.00
(11) Zitan lotus stand	1	8,000.00
(12) Elmwood one drawer coffer	1	2,000.00
(13) Zitan table with detachable legs	1	140,000.00
(14) Huanghuali shrine	1	10,000.00
(15) Chi Chih Mu cabinet with many drawers	1	50,000.00
(16) Huanghuali small lobed pot	1	5,000.00
(17) Zitan side table with inserted shoulder	1	90,000.00
(18) Chi Chih Mu carving	1	7,000.00
(19) Partner writing desk	1	300,000.00
(20) Chi Chih Mu long armchair	1	12,000.00
(21) Huanghuali bed	1	500,000.00
(22) Huanghuali armchair	2	420,000.00
(23) Zitan square stools	2	25,000.00
(24) Huanghuali kang table with folding legs	1	90,000.00
(25) Huanghuali stool with humpback stretcher	1	30,000.00
(26) Zitan stationary box	1	10,000.00
(27) Huanghuali small box with handles	1	9,000.00
(28) Huanghuali small headrest	1	8,000.00
(29) Large huanghuali brush pot	1	14,000.00
(30) Huanghuali scholar box with drawers	1	14,000.00
(31) Huanghuali folding stool with footrest on both sides	1	200,000.00
(32) Late Ming Dynasty huanghuali table	1	100,000.00
(33) Ching Dynasty huanghuali horse-shoe-back armchair	1	135,000.00
(34) Late Ming Dynasty huanghuali rectangular table	1	150,000.00
(35) Ching Dynasty tzu-tan horse-shoe-back armchair	1	100,000.00
(36) Huanghuali large circular stand	1	175,000.00

DESCRIPTION	QTY	VALUATION
		AT 31-OCT-03 HK\$
(37) A pair of large gilt-bronze guardian king	1	950,000.00
(38) Huanghuali rectangular box with handles	1	85,000.00
(39) Ink boxes, round and lotus shape	2	95,000.00
(40) Late Ming Dynasty huanghuali horse-shoe-back armchair	1	520,000.00
(41) Ching Dynasty tzu-tan sloping-stile, wood-hinged cabinet	1	160,000.00
(42) Ching Dynasty tzu-tan cosmetic box	1	70,000.00
(43) Huanghuali rectangular table	1	100,000.00
(44) Huanghuali pair of square stool	1	100,000.00
(45) Ching Dynasty tzu-tan sloping-stile, wood-hinged cabinet	1	500,000.00
(46) Ching Dynasty tzu-tan foot massage little stand (1 pair)	1	170,000.00
(47) Ching Dynasty tzu-tan little rectangular table	1	110,000.00
(48) Ching Dynasty tzu-tan little table	1	38,000.00
(49) Huanghuali pair of wood-hinged cabinets	1	270,000.00
(50) Ching Dynasty tzu-tan horse-shoe-back armchair	1	120,000.00
(51) Ching Dynasty tzu-tan – candle stand	1	10,000.00
(52) Ching Dynasty tzu-tan stand	1	4,000.00
(53) Huanghuali screen 12 pcs	1	800,000.00
(54) Huanghuali foot-stool	1	11,000.00
(55) Huanghuali Ch'uang with sold sailings	1	590,000.00
(56) Ching Dynasty huanghuali horse riding pad	1	13,000.00
(57) Ching Dynasty tzu-tan square stools	1	40,000.00
(58) Huanghuali round stool with curvilinear legs	1	190,000.00
(59) Huanghuali low game table with detachable chess board	1	90,000.00
(60) Court lady with a musical instrument	1	24,000.00
(61) Huanghuali small square stand with dragon carving	1	30,000.00
(62) Ching Dynasty case and brass case	1	50,000.00
(63) Ching Dynasty horse-shoe-back armchair	1	55,000.00
(64) Ching Dynasty huanghuali head box	1	35,000.00
(65) Huanghuali little stand	1	22,000.00
(66) Ching Dynasty tzu-tan traveller case	1	30,000.00
(67) Late Ming Dynasty black rectangular table	1	150,000.00
(68) Carved zitan table screen	1	70,000.00
(69) Antique Huang Hua-Li Wood Six-Legs	1	580,000.00
(70) Antique Huang Hua-Li Wood Square Foot-Stool	1	200,000.00
(71) Antique Huang Hua-Li Wood Rectangular	1	120,000.00
(72) Antique Huang Hua-Li Wood Wei-Qi Box	2	45,000.00
(73) Antique Huang Hua-Li Wood Brush Pot	1	55,000.00
(74) Antique Carved Root-Wood Stand	2	10,000.00
(75) Men's Hat Trunk in Natural Cow Hide	1	10,000.00

DESCRIPTION	QTY	VALUATION
		AT 31-OCT-03 HK\$
(76) Courier Trunk in Natural Cow Hide	1	20,000.00
(77) Suite-Courier in Natural Cow Hide	1	10,000.00
(78) Suite-Carrier in Crocodile Skin	1	50,000.00
(79) A Rare Album Box – Huanghuali wood, early 18th century	1	40,000.00
(80) A Scholar's Tray	1	7,000.00
(81) Zitan core	1	5,000.00
(82) K'ang table	1	15,000.00
(83) Zitan ancient box	1	22,000.00
(84) K'ang table	1	10,000.00
(85) Zitan stationary box	1	22,000.00
(86) Marguetry inlaid kang table	1	150,000.00
(87) Qin form scroll weights/domino box	2	20,000.00
(88) Huanghuali abacus	1	8,000.00
(89) Huanghuali rectangular table with golden line inlay	1	270,000.00
(90) Huanghuali bamboo design small table	1	50,000.00
(91) Huanghuali low-back armchairs	2	100,000.00
(92) Huanghuali bookcase with dragon and lotus design	1	500,000.00
(93) Huanghuali painting table	1	150,000.00
(94) Southern official armchairs with mat on back splat and fan shaped seat	2	200,000.00
(95) Large huanghuali foot stool for canopy bed	1	190,000.00
(96) Late Ming Dynasty Huanghuali rectangular folding table	1	210,000.00
(97) Late Ming Dynasty Huanghuali little cabinet 1 pair	1	180,000.00
(98) Ching Dynasty huanghuali cabinet	1	150,000.00
(99) Painting table	1	150,000.00
(100) Ching Dynasty horse-shoe-back armchair 1 pair	1	110,000.00
(101) Ching Dynasty chi chi mu K'ang table with everted flanges	1	180,000.00
(102) Late Ming Ch'uang with humpback railings	1	100,000.00
(103) Lobed stand, black lacquer with mother-of-pearl inlay	1	300,000.00
(104) Huanghuali sloping, wood-hinged cabinets 1 pair	1	450,000.00
(105) Huanghuali six-post canopy bed	1	150,000.00
(106) Huanghuali square game table	1	50,000.00
(107) Huanghuali chinese chess game	1	75,000.00
(108) Zitan triangle chair	1	140,000.00
(109) Huanghuali meditation stool with curvilinear aprons, rounded surface on the exterior sides of the legs	1	170,000.00
(110) Huanghuali Incense Stand	1	400,000.00

DESCRIPTION	QTY	VALUATION AT 31-OCT-03 HK\$
(111) Paintings “green love poem” & “Spring”	2	100,000.00
(112) Painting “Early Spring”	1	10,000.00
(113) A figure of “Thousand Hand” Guan Yin	1	–
(114) Painted & gilt pottery horse, northern Qi Dynasty	1	50,000.00
(115) Sancai glazed horse, Tang Dynasty	1	480,000.00
(116) Sancai glazed figure of a groom, Tang Dynasty	1	90,000.00
(117) Pottery tank	1	9,000.00
(118) Pair of pottery horse, Tang Dynasty	2	100,000.00
(119) Han Dynasty pottery tank	1	8,000.00
(120) A large sancai-glazed pottery camel, Tang Dynasty	1	500,000.00
(121) A painted pottery camel with saddle pack, Tang Dynasty	1	180,000.00
(122) Painted pottery figure of a lokapala, Tang Dynasty	1	180,000.00
(123) Han Dynasty brass sword with sword case	1	100,000.00
(124) An ancient wooden Chinese Zither	1	8,000.00
(125) Dinosaur eggs 4 pcs.	4	–
(126) A Sichuan pottery entertainer	1	100,000.00
(127) A pair of marble top hongmu drumstools	1	10,000.00
(128) A massive camphor chest	1	20,000.00
(129) A pair of lacquered stands	1	150,000.00
(130) A baitong-mounted huanghuali box/cover and two huanghuali brass-mounted boxes	1	10,000.00
(131) A small huanghuali corner leg table	1	180,000.00
(132) A rare huanghuali travelling bookcase	1	160,000.00
(133) A pair of ivory hammock fittings	1	10,000.00
(134) A Tang ceramic money chest	1	220,000.00
(135) Sancai glazed pottery basin	1	100,000.00
(136) Sancai glazed pottery figure of a dignitary	1	25,000.00
(137) Sancai glazed pottery tripod jar	1	20,000.00
(138) Blue & white glazed pottery small bowl	1	10,000.00
(139) Brass chain 19th C.	2	5,000.00
(140) Huanghuali wood yoke back armchair with Dragon Carving Panel	1	150,000.00
(141) Painting “March”	1	30,000.00
(142) Huanghuali fruit-plate stand	1	15,000.00
		<b><u>18,080,000.00</u></b>



## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules and the Share Repurchase Code for the purpose of giving information with regard to the Group. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained herein the omission of which would make any statement contained in this circular misleading.

## 2. DISCLOSURE OF INTERESTS

### (a) Interests of Directors

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), the Model Code for Securities Transactions by Directors of Listed Companies and which were required to be entered into the register required to be kept under section 352 of the SFO were as follows:

#### (i) Long positions in Shares

Name	Number of Shares/capacity			Total number of Shares	Approximate % shareholding
	Beneficial	Founder of a discretionary trust and discretionary object	Corporate		
Hung Kin Sang, Raymond	3,280,000	405,655,584 <i>(Note 1)</i>	48,329,000 <i>(Note 2)</i>	457,264,584	48.59%
Hung Wong Kar Gee, Mimi	8,870,056	405,655,584 <i>(Note 1)</i>	48,329,000 <i>(Note 2)</i>	462,854,640	49.18%
Fang Chin Ping	100,000	–	–	100,000	0.01%
Soo Hung Leung, Lincoln	1,100,000	–	–	1,100,000	0.12%

## (ii) Long positions in underlying Shares

Name	Number of underlying Shares/capacity			Total number of underlying Shares (warrants)	Approximate % shareholding
	Beneficial	Founder of a discretionary trust and discretionary object	Corporate		
Hung Kin Sang, Raymond	560,000	81,131,116 (Note 1)	9,665,800 (Note 2)	91,356,916	9.71%
Hung Wong Kar Gee, Mimi	1,774,011	81,131,116 (Note 1)	9,665,800 (Note 2)	92,570,927	9.84%
Fang Chin Ping	20,000	–	–	20,000	0.002%
Soo Hung Leung, Lincoln	220,000	–	–	220,000	0.02%

## (iii) Long position in shares of associated corporations

Name	Number of underlying Shares/capacity			Total number of shares	Approximate % shareholding
	Beneficial	Other	Name of associated corporation		
Fang Chin Ping	199,999	1 (Note 3)	Quorum Bio-Tech Limited (Note 3)	200,000	2%

## Notes:

- (1) These Shares and underlying Shares are held by the following companies:

	Number of Shares	Number of underlying Shares (warrants)
Malcolm Trading Inc.	43,992,883	8,798,576
Primore Co. Inc.	2,509,266	501,853
Capita Company Inc.	359,153,435	71,830,687
iQuorum Cybernet Limited	48,329,000	9,665,800
	<u>453,984,584</u>	<u>90,796,916</u>

Malcolm Trading Inc., Primore Co. Inc. and Capita Company Inc. are wholly-owned by the Marami Foundation as trustee for the Raymond Hung/Mimi Hung & Family Trust, a discretionary trust the discretionary objects of which include the family members of Hung Kin Sang, Raymond and Hung Wong Kar Gee, Mimi (husband and wife).

- (2) These Shares and underlying Shares are held by iQuorum Cybernet Limited which is a wholly-owned subsidiary of Applied (China) Limited. Applied (China) Limited, the shares of which are listed on the Stock Exchange, is a 74.99% owned subsidiary of the Company. As Capita Company Inc. owns more than one-third of the issued Shares and the underlying Shares of the Company and Capital Company Inc. is in turn a wholly-owned subsidiary of the Marami Foundation, the trustee of the Raymond Hung/Mimi Hung & Family Trust the discretionary objects of which include the family members of Hung Kin Sang Raymond and Hung Wong Kar Gee Mimi (husband and wife), both Hung Kin Sang Raymond and Hung Wong Kar Gee Mimi are deemed to be interested in such long positions.
- (3) Fang Chin Ping is the registered holder of 200,000 shares of Quorum Bio-Tech Limited, a 89.00001% owned subsidiary of iQuorum, of which he holds 1 share on trust for iQuorum.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests and short positions in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), the Model Code for Securities Transactions by Directors of Listed Companies and which were required to be entered into the register required to be kept under section 352 of the SFO.

As at the Latest Practicable Date:

- (i) none of the Directors, Altus, RHL Appraisal Limited and Castle of Antiquities Co. Ltd., Altus had any direct or indirect interests in any assets which have since 30 June 2003 (being the date to which the latest published audited accounts of the Group were made up) been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group; and
- (ii) none of the directors was materially interested in any contracts or arrangements subsisting at the date of this circular which is significant in relation to the business of the Group.

None of the Directors has dealt for value in the Repurchase Shares during the 6 month period prior to the date of the Share Repurchase Announcement and ending on the Latest Practicable Date.

**(b) Interests of Shareholders**

As at the Latest Practicable Date, so far as is known to the Directors and the chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had an interest or short position in the Shares and underlying Shares which fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO.

Name	Capacity	Number of Shares	Number of underlying Shares (warrants)	% shareholding
Malcolm Trading Inc.	Beneficial	43,992,883	8,798,576	5.6%
Capita Company Inc.	Beneficial	359,153,435	71,830,687	45.8%
Marami Foundation	Corporate	405,655,584 (Note 3)	81,131,116 (Note 3)	51.7%
iQuorum Cybernet Limited	Beneficial	48,329,000	9,665,800	6.2%

*Note 3:* Malcolm Trading Inc., Primore Co. Inc. and Capita Company Inc. are wholly-owned by the Marami Foundation as trustee for the Raymond Hung/Mimi Hung & Family Trust, a discretionary trust the discretionary objects of which include the family members of Hung Kin Sang, Raymond and Hung Wong Kar Gee, Mimi (husband and wife and who are both executive Directors).

**(c) Substantial shareholding in other members of the Group**

As at the Latest Practicable Date, so far as is known to the Directors and the chief executive of the Company, the following persons (other than a Director or chief executive of the Company) are directly or indirectly interested in 5 per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group:

Name of Subsidiary	Name of Shareholder	% Shareholding
Sharp Win (Holdings) Limited	Hung Kin Nam, Ricky	48.9%
Sharp Win Industrial Limited	Hung Kin Nam, Ricky	19.96%
Wideland Electronics Limited	Fan Shek Yui	30%
Wideland Electronics Limited	Ma Yi Fat	19%

Save as disclosed above, the Directors and the chief executive of the Company are not aware that there is any person (other than a Director or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 5 per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group.

None of the Shareholders who are directly or indirectly interested in 5 per cent. or more of the issued share capital of the Company carrying voting rights has dealt for value in the Repurchase Shares during the 6 month period prior to the date of the Share Repurchase Announcement and ending on the Latest Practicable Date.

### 3. SHARE CAPITAL

The authorised share capital of the Company as at 30 June 2003 and the Latest Practicable Date is 2,000,000,000 Shares in the total amount of HK\$400,000,000.

As at 30 June 2003 and the Latest Practicable Date, a total of 941,080,745 Shares of HK\$188,216,000 were in issue.

All the Shares in issue are fully paid up and rank pari passu in respect of capital, dividends and voting rights.

### 4. MARKET PRICES

- (a) The table below sets out the closing prices of the Shares as quoted on the Stock Exchange on the last business day of each of the six calendar months immediately preceding the date of the Share Repurchase Announcement and on the Latest Practicable Date:

	<b>Closing Price</b> (HK\$)
31 July 2003	0.084
29 August 2003	0.130
30 September 2003	0.133
31 October 2003	0.110
28 November 2003	0.122
31 December 2003	0.108
2 January 2004, being the last business day immediately preceding the date of the Share Repurchase Announcement	0.108
Latest Practicable Date	0.099

- (b) The table below sets out the highest and lowest closing prices of the Shares on the Stock Exchange, with the relevant dates, for each month during the six months period immediately the date of the Share Repurchase Announcement and the Latest Practicable Date:

	Closing Price	
	Highest (HK\$)	Lowest (HK\$)
July 2003	0.097	0.056
August 2003	0.140	0.082
September 2003	0.146	0.125
October 2003	0.135	0.110
November 2003	0.148	0.115
December 2003	0.130	0.100
1 January 2004 up to 2 January 2004	0.108	0.108
5 January 2004 up to the Latest Practicable Date	0.100	0.098

## 5. MATERIAL CONTRACTS

The following contracts are all the contracts (not being contracts in the ordinary course of business) entered into by the Company or its subsidiaries during the two year period prior to the date of the Share Repurchase Announcement and ending on the Latest Practicable Date which are or may be material:

- (a) the Sale and Purchase Deed in respect of, inter alia, the sale and purchase of the Sale Shares dated 1 December 2003 entered into between the Offeror, the Company and Mr. Hung Kin Sang, Raymond;
- (b) the Disposal Agreement dated 1 December 2003 entered into between ACL and the Company pursuant to which, inter alia, ACL agreed to sell and the Company agreed to purchase the iQuorum Sale Shares; and
- (c) a sale and purchase agreement dated 20 October 2003 between Applied Properties (Hui Yang) Limited S.A., (a wholly-owned subsidiary of the Company) and Zhejiang Se Fu Real Estate Development Co. Ltd. in connection with the sale by Applied Properties (Hui Yang) Limited S.A. of its 59% interest in Sun City Development (Danshui) Ltd. (an equity joint venture established in the PRC, which was owned as to 60% by Applied Properties (Hui Yang) Limited S.A. and 40% by the joint venture partner, and which was established for purposes of developing a site in Dan Shui in the PRC) for a consideration of approximately Renminbi 62.5 million (approximately HK\$58,962,264 (at the rate of Renminbi 1.06 to HK\$1.00)), which was announced by the Company in its announcement dated 27 October 2003.

**6. MATERIAL CHANGE**

Save for the disposal by the Company of its 59% interest in Sun City Development (Dan Shui) Ltd., as announced by the Company in its announcement dated 27 October 2003, the Directors are not aware of any material change in the financial or trading position or prospects of the Group since 30 June 2003, being the date to which the latest published audited consolidated accounts of the Group were made up.

**7. WORKING CAPITAL**

Taking into account the credit facilities currently available to the Group and in the absence of unforeseen circumstances, the Directors are of the opinion that, following Completion, the Group will have sufficient working capital for its present requirements.

**8. INDEBTEDNESS**

At the close of business on 31 October 2003 (being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular), the Group had outstanding bank borrowings of approximately HK\$94.1 million (of which approximately HK\$93.7 million was secured by a charge over certain of the Group's bank deposits, investment properties and property, plant and equipment amounting to approximately HK\$3.2 million, HK\$73.9 million and HK\$18.1 million respectively). In addition, the Group had outstanding at that date other loans of approximately HK\$61.8 million (of which approximately HK\$20.1 million was secured by a charge over the entire issued share capital of a subsidiary of the Company), loan from a minority shareholder of a subsidiary of approximately HK\$5.4 million, convertible note of approximately HK\$0.7 million, amount due to a director of approximately HK\$3.7 million and obligations under finance leases of approximately HK\$12.1 million.

Save as aforesaid and apart from intra-group liabilities, the Group did not have any outstanding mortgages, charges, debentures, loan capital and overdraft or other similar indebtedness, finance leases or hire purchase commitment, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities as at the close of business on 31 October 2003.

For the purpose of the above indebtedness statement, foreign currency amounts have been translated into Hong Kong dollars at the approximate exchange rates prevailing at the close of business on 31 October 2003.

The Directors have confirmed that there has been no material change in the indebtedness or contingent liabilities of the Group since 31 October 2003.

**9. SERVICE CONTRACTS**

None of the Directors had entered into any service agreement with any member of the Group nor were there any other service agreements proposed which will not expire or be determinable by the Group within one year without payment of compensation (other than statutory compensation).

**10. LITIGATION**

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration proceedings of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Group.

**11. QUALIFICATION OF EXPERTS**

The following are the qualifications of the experts which have given opinions or advice which are contained in this circular:

<b>Name</b>	<b>Qualification</b>
RHL Appraisal Limited	professional property valuation firm
Castle of Antiquities Co. Ltd.	a company which is principally engaged in the antique business. Mr. Lee Man Shing, the managing director of Castle Antiquities Co. Ltd., has been involved in the antique business since 1980 and is the consultant to TT Tsui Museums around the world in London, Chicago, Toronto, Shanghai, Singapore and Hong Kong; and its customers include the top 10 international dealers to world-class museums
Altus	a corporation deemed licensed to carry out types 1, 4, 6 and 9 regulated activities (dealing in securities, advising on securities and corporate finance and asset management) under the SFO

RHL Appraisal Limited, Castle of Antiquities Co. Ltd. and Altus do not have any interest in any Shares or AIHL Warrants or shares in any member of the Group nor do they have any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any Shares or AIHL Warrants or shares in any member of the Group.



Each of RHL Appraisal Limited, Castle of Antiquities Co. Ltd. and Altus has given and has not withdrawn its consent to the issue of this circular with the inclusion herein of its letter, statement and references to its name in the form and context in which it is respectively included.

## **12. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company at 41st Floor, Far East Finance Centre, 16 Harcourt Road, Central, Hong Kong up to and including 4 February 2004:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the material contracts referred to in the paragraph headed “Material Contracts” in this Appendix;
- (c) the valuation reports prepared by RHL Appraisal Limited and Castle of Antiquities Co. Ltd, the letter of advice from Altus as set out in this circular and the consent letters referred to in the paragraph headed “Qualification of Experts” in this Appendix;
- (d) the audited consolidated accounts of the Group for each of the two years ended 30 June 2002 and 30 June 2003; and
- (e) a copy of each notifiable transaction circular issued since the date of the latest published audited accounts.

## **13. GENERAL AND OTHER INFORMATION**

- (a) There has been no re-organisation of capital during the 2 financial years preceding the date of the Share Repurchase Announcement.
- (b) None of the Shares were repurchased by the Company during the 12-month period immediately preceding the date of this circular.
- (c) None of the Repurchase Shares were issued during the 2 year period immediately preceding the date of the Share Repurchase Announcement.
- (d) No dividends have been paid out by the Company to holders of shares proposed to be repurchased during the 2 year period immediately preceding the date of the Share Repurchase Announcement.

- (e) The Secretary of the Company is Lam Che Wah, Danny, ACS, ACIS (associate member of The Hong Kong Institute of Company Secretaries and associate member of The Institute of Chartered Secretaries and Administrators).
  
- (f) The share registrar of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited and the transfer office is at 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

---

## NOTICE OF SPECIAL GENERAL MEETING

---



### **APPLIED INTERNATIONAL HOLDINGS LIMITED**

*(incorporated in Bermuda with limited liability)*

**NOTICE IS HEREBY GIVEN THAT** a special general meeting of Applied International Holdings Limited (“the Company”) will be held at 9:45 a.m. on Wednesday, 4 February 2004 at The Kam Shan Room, The American Club, 49th Floor, Two Exchange Square, No. 8 Connaught Place, Central, Hong Kong for the purpose of considering and, if thought fit, passing the following resolutions, which will be proposed with or without amendments as ordinary resolutions and special resolution, of the Company, such special resolution to be voted on by way of poll:

#### **ORDINARY RESOLUTIONS**

**“THAT:**

- (1) the agreement dated 1 December 2003 entered into between the Company, Mr. Hung Kin Sang, Raymond and MACRO-LINK International Investment Co, Ltd. (“Macro-Link”) (the “Sale and Purchase Deed”) (a copy of which has been produced to the meeting marked “A” and initialled by the Chairman for the purpose of identification) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified and any director of the Company be and is hereby authorised to do all things and acts and sign all documents which he or she considers necessary, desirable or expedient in connection with the transactions contemplated under the Sale and Purchase Deed, including without limitation, signing and/or witnessing any document and/or agreement to which the common seal of the Company is to be affixed in accordance with the By-laws of the Company and approving any public or other documents or announcements and generally to exercise all the powers of the board of directors of the Company as they deem necessary or expedient for the foregoing purposes; and
- (2) the agreement dated 1 December 2003 entered into between Applied (China) Limited and the Company (the “Disposal Agreement”) (a copy of which has been produced to the meeting marked “B” and initialled by the Chairman for the purpose of identification) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified and any director of the Company be and is hereby authorised to do all things and acts and sign all documents which he or she considers necessary, desirable or expedient in connection with the

---

## NOTICE OF SPECIAL GENERAL MEETING

---

transactions contemplated under the Disposal Agreement, including without limitation, signing and/or witnessing any document and/or agreement to which the common seal of the Company is to be affixed in accordance with the Bye-laws of the Company and approving any public or other documents or announcements and generally to exercise all the powers of the board of directors of the Company as they deem necessary or expedient for the foregoing purposes.”

### SPECIAL RESOLUTION

**“THAT:**

- (1) the proposed off-market repurchase by the Company of the 48,329,000 ordinary shares of HK\$0.20 each in the Company by virtue of the Company acquiring the entire issued share capital of iQuorum Cybernet Limited pursuant to the Disposal Agreement and which represent approximately 5.14% of the entire issued share capital of the Company be and is hereby approved and any director of the Company be and is hereby authorised to do all things and acts and sign all documents which he or she considers necessary, desirable or expedient in connection with the Share Repurchase, including without limitation, signing and/or witnessing any document and/or agreement to which the common seal of the Company is to be affixed in accordance with the Bye-laws of the Company and approving any public or other documents or announcements and generally to exercise all the powers of the board of directors of the Company as they deem necessary or expedient for the foregoing purposes.”

By order of the Board  
**Applied International Holdings Limited**  
**Hung Kin Sang, Raymond**  
*Chairman and Managing Director*

Hong Kong, 12 January 2004

---

## NOTICE OF SPECIAL GENERAL MEETING

---

*Registered office:*

Canon's Court  
22 Victoria Street  
Hamilton HM 12  
Bermuda

*Principal place of business:*

41st Floor  
Far East Finance Centre  
16 Harcourt Road  
Central  
Hong Kong

*Notes:*

1. Any member of the Company entitled to vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. On a poll, votes may be given either personally or by proxy. A proxy need not be a member of the Company. A member may appoint more than one proxy to attend on the same occasion.
2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney authorised in writing, or if the appointer is a corporation, either under seal or under the hand of an officer or attorney duly authorised.
3. A form of proxy for use at the meeting is enclosed.
4. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof shall be deposited at the principal place of business of the Company at 41st Floor, Far East Finance Centre, 16 Harcourt Road, Central, Hong Kong not less than 48 hours before the time for holding the meeting or adjourned meeting or poll (as the case may be) at which the person named in such instrument proposed to vote and in default the instrument of proxy shall not be treated as valid.
5. No instrument appointing a proxy shall be valid after expiration of twelve months from the date of its execution, except at an adjourned meeting or on a poll demanded at a meeting or an adjourned meeting in cases where the meeting was originally held within twelve months from such date.
6. Delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.