

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

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

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APPLIED INTERNATIONAL HOLDINGS LIMITED

實力國際集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 519)

MAJOR TRANSACTION

DISPOSAL OF PRC PROPERTY

A notice convening a special general meeting of Applied International Holdings Limited to be held at 2:00 p.m. on Friday, 26 November 2004 at The Oregon Room, The American Club, 47th Floor, Two Exchange Square, No. 8 Connaught Place, Central, Hong Kong is set out on pages 73 to 74 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 Unit 3402, 34th Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught 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 special general meeting, or any adjournment thereof, should you so wish.

* *For identification only*

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DEFINITIONS

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

“Board”	the board of Directors of the Company;
“Company”	Applied International Holdings Limited, a company incorporated in Bermuda and the shares of which are listed on the Stock Exchange;
“Consideration”	RMB22,200,000 (approximately HK\$20,923,657), being the total amount payable by Sheung Ping Committee for the purchase of whatever rights and interests (if any) Dongguan Incar and Dongguan Man Lee may have in the Sheung Ping Property pursuant to the Sale and Purchase Agreement;
“Directors”	the directors of the Company (including the independent non-executive directors of the Company);
“Dongguan Incar”	Dongguan Incar Electronics Co., Ltd., a company established in the PRC and an indirectly wholly-owned subsidiary of the Company;
“Dongguan Man Lee”	Dongguan Man Lee Plastic Products Co., Ltd., a company established in the PRC and an indirectly wholly-owned subsidiary of the Company;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	The Hong Kong Special Administrative Region of the People’s Republic of China;
“Independent Third Party”	a person who, to the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, is independent of the Company and its subsidiaries, their directors, chief executives and substantial shareholders or their respective associates (as that term is defined in the Listing Rules) and who is not a connected person (as that term is defined in the Listing Rules) of the Company;

DEFINITIONS

“Latest Practicable Date”	28 October 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;
“PRC”	the People’s Republic of China, which for the purposes of this circular, excludes Hong Kong, Macau and Taiwan;
“RJP”	RJP International Limited, a company incorporated in Hong Kong with limited liability and an indirectly wholly-owned subsidiary of the Company;
“RMB”	Renminbi, the lawful currency of the PRC;
“Sale”	the sale or the procurement of sale by RJP of whatever rights and interests (if any) Dongguan Incar and Dongguan Man Lee may have in the Sheung Ping Property to Sheung Ping Committee pursuant to the terms of the Sale and Purchase Agreement;
“Sale and Purchase Agreement”	the sale and purchase agreement dated 23 September 2004 entered into between RJP and Sheung Ping Committee pursuant to which, inter alia, RJP agreed to sell, or procure the sale of, and Sheung Ping Committee agreed to purchase whatever rights and interests (if any) Dongguan Incar and Dongguan Man Lee may have in the Sheung Ping Property;
“SFO”	the Securities and Futures Ordinance (cap. 571 of the laws of Hong Kong);
“SGM”	the special general meeting of the Company to be held at 2:00 p.m. on Friday, 26 November 2004 for the purpose of considering and, if thought fit, approving the Sale and Purchase Agreement and the transactions contemplated thereunder;
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company;
“Shareholder(s)”	holder(s) of the Shares;

DEFINITIONS

“Sheung Ping Committee”	東莞市常平鎮土塘村委會 (The Committee of the Tutang Village, Sheung Ping Town, Dongguan*), a governmental organisation established in Sheung Ping, PRC;
“Sheung Ping Property”	a piece of land of approximately 46,254 square metres situated at Tutang District, Sheung Ping Town, Dongguan, PRC together with twelve two-to-four-storeys factory buildings of 33,811 square metres in total and nine one-to-six-storeys staff quarters of 16,890 square metres in total constructed thereon and which is actually owned and used by Dongguan Incar and Dongguan Man Lee despite land grant procedures in relation thereto not having been completed; and
“Stock Exchange”	The Stock Exchange of Hong Kong Limited.

Unless otherwise specified in this circular, translations of RMB into HK\$ are made in this circular, for illustration only, at the rate of RMB1.061 to HK\$1.00. No representation is made that any amounts in RMB or HK\$ could have been or could be converted at that rate or at any other rate.

** For identification only*



APPLIED INTERNATIONAL HOLDINGS LIMITED

實力國際集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 519)

Executive Directors:

Mr. Hung Kin Sang Raymond (*Chairman*)

Ms. Hung Wong Kar Gee, Mimi

Mr. Fang Chin Ping

Registered office:

Canon's Court

22 Victoria Street

Hamilton HM 12

Bermuda

Independent Non-executive Directors:

Mr. Soo Hung Leung, Lincoln

Mr. Lo Yun Tai

Mr. Lun Tsan Kau

Principal place of business:

Unit 3402, 34th Floor

China Merchants Tower

Shun Tak Centre

168-200 Connaught Road

Central

Hong Kong

29 October 2004

To the Shareholders

Dear Sir/Madam,

MAJOR TRANSACTION

DISPOSAL OF PRC PROPERTY

INTRODUCTION

On 23 September 2004, RJP and Sheung Ping Committee entered into the Sale and Purchase Agreement pursuant to which, inter alia, RJP agreed to sell, or procure the sale of, and Sheung Ping Committee agreed to purchase, whatever rights and interests (if any) Dongguan Incar and Dongguan Man Lee may have in the Sheung Ping Property.

The Sale constitutes a major transaction of the Company pursuant to Rule 14.06(3) of the Listing Rules and will be subject to approval of the Shareholders at the SGM.

* *For identification only*

LETTER FROM THE BOARD

The purpose of this circular is to provide you with further information in relation to the Sale and the Group, a valuation report on the Sheung Ping Property and financial information on the Group, and to give you notice of the SGM convened for the purpose of considering and, if thought fit, approving the Sale and Purchase Agreement and the transactions contemplated thereunder.

THE SALE AND PURCHASE AGREEMENT

Date

23 September 2004

Parties

1. RJP as vendor; and
2. Sheung Ping Committee as purchaser. Sheung Ping Committee is an Independent Third Party.

The Sale

Pursuant to the Sale and Purchase Agreement, inter alia, RJP agreed to sell, or procure the sale of, and Sheung Ping Committee agreed to purchase, whatever rights and interests (if any) Dongguan Incar and Dongguan Man Lee may have in the Sheung Ping Property, including the facilities thereon such as water and electricity supply, road, fence, greenery, doors and windows.

Consideration

The Consideration payable by Sheung Ping Committee pursuant to the Sale and Purchase Agreement is RMB22,200,000 (approximately HK\$20,923,657).

Payment Terms

Sheung Ping Committee paid RJP RMB5,000,000 (approximately HK\$4,712,535) upon signing the Sale and Purchase Agreement. RMB10,000,000 (approximately HK\$9,425,071) is payable before 31 December 2004 and the remaining RMB7,200,000 (approximately HK\$6,786,051) is payable before 30 June 2005.

Condition Precedent

Completion of the Sale is conditional on approval of the Sale and Purchase Agreement and the transactions contemplated thereunder by shareholders of the Company in a general meeting.

LETTER FROM THE BOARD

Completion

Completion is to take place on 1 January 2005 when RJP shall deliver, or procure the delivery of, the Sheung Ping Property to Sheung Ping Committee in the existing condition without modification or subject to tenancy (as the case may be). RJP shall also provide all information in relation to the relevant tenancy agreements (if any). According to a valuation report issued by RHL Appraisal Limited dated 8 October 2004, as at 31 August 2004, certain portions of the Sheung Ping Property were subject to various tenancies at an aggregate monthly rental of RMB195,981 (approximately HK\$184,713). Pursuant to the Sale and Purchase Agreement, RJP will be entitled to rental income from the Sheung Ping Property prior to 31 December 2004 and Sheung Ping Committee will be responsible for all matters relating to the lease of the Sheung Ping Property and will be entitled to rental income therefrom after 1 January 2005.

Information regarding the Sheung Ping Property

In the early 1990s, Dongguan Incar and Dongguan Man Lee agreed to purchase the north and south portions of the Sheung Ping Property respectively from Sheung Ping Committee for a consideration of approximately HK\$19,800,000. According to a valuation report dated 8 October 2004 issued by RHL Appraisal Limited, an independent valuer, as at 31 August 2004, the Sheung Ping Property had no commercial value as the land grant procedures, including land premium payment in relation thereto, had not been completed. According to information supplied to the Company by Sheung Ping Committee, the land premium payable before the land grant procedures for the Sheung Ping Property can be completed is approximately RMB8,350,000 (approximately HK\$7,869,934).

According to the legal opinion issued by Hills & Co, the PRC legal advisers to the Company, as the land grant procedures in respect of the Sheung Ping Property had not been completed, legal title to the Sheung Ping Property is not vested in Dongguan Incar and Dongguan Man Lee. Hence, Dongguan Incar and Dongguan Man Lee do not have the right to dispose of the Sheung Ping Property. The PRC legal advisers cannot opine on the legal validity and enforceability of the Sale and Purchase Agreement and the transactions contemplated thereunder nor can they opine on whether any disputes will arise as a result of the parties' rights being adversely affected due to the requisite land grant procedures not having been completed. Nevertheless, as a result of negotiations with Sheung Ping Committee and taking into account previous dealings between RJP and Sheung Ping Committee, it was agreed that RJP would enter into the Sale and Purchase Agreement with the Sheung Ping Committee to procure the Sale. As no action has been taken against the Group for land grant procedures not having been completed since the acquisition of the Sheung Ping Property in the 1990s, and as Dongguan Incar and Dongguan Man Lee are merely selling whatever rights and interests they may have (if any) in the Sheung Ping Property back to Sheung Ping Committee, the Directors are of the view that it is very unlikely for any action to be taken by Sheung Ping Committee itself or other PRC authorities for such irregularity upon sale of Dongguan Incar and Dongguan Man Lee's rights and interests (if any) in the Sheung Ping

LETTER FROM THE BOARD

Property. Further, the Directors are of the view that it is unlikely that Dongguan Incar and Dongguan Man Lee will fail to deliver, or RJP will fail to procure delivery of, the Sheung Ping Property to Sheung Ping Committee. However, investors should be aware that action may be taken by Sheung Ping Committee and other PRC authorities against the Group as the Sale and Purchase Agreement and the transactions contemplated thereunder may not be valid and enforceable in accordance with PRC laws and regulations. Shareholders and potential investors should exercise caution when dealing in the Shares.

The audited net loss (before and after taxation and extraordinary items) attributable to the Sheung Ping Property for the financial year ended 30 June 2003 was HK\$385,427 and the audited net profit (before and after taxation and extraordinary items) for the financial year ended 30 June 2002 was HK\$1,362,121.

As at 31 August 2004, the depreciated replacement cost of the land improvement works in the Sheung Ping Property amounted to HK\$6,600,000. The unaudited net book value of the Sheung Ping Property as at 30 June 2004 was HK\$6,600,000 and the excess of the Consideration over the net book value of the Sheung Ping Property as at 30 June 2004 amounts to HK\$14,323,657. No significant impairment had been noted by the Directors. As a result of the Sale, after deducting expenses in relation thereto in the amount of approximately HK\$1,501,657, the Group is expected to recognise a net gain on disposal of approximately HK\$12,822,000 in its next audited accounts. Hence, the earnings of the Group and the net asset value of the Group will be increased by approximately HK\$12,822,000 respectively. The Sale does not have any effect on the liabilities of the Group.

Net Proceeds from the Sale

According to a valuation report issued by RHL Appraisal Limited dated 29 October 2004, as at 31 August 2004, the Sheung Ping Property had no commercial value as the land grant procedures, including land premium payment in relation thereto, have not been completed. The Consideration was determined after arms' length negotiations between the parties to the Sale and Purchase Agreement, after taking into account the investment prospects in the Sheung Ping property market and shortage of land in the Sheung Ping area.

The proceeds from the Sale will be used for general working capital of the Company.

REASONS FOR THE SALE AND BENEFITS TO THE COMPANY

The Company is principally engaged in the business of design, manufacture, marketing and distribution of consumer electronic products and property investment and development.

RJP is principally engaged in investment holding. The Sheung Ping Committee is a government organization in the PRC responsible for the administration and management of the Sheung Ping municipal.

LETTER FROM THE BOARD

As stated in the section headed “Information regarding the Sheung Ping Property” above, according to the legal opinion issued by Hills & Co, the PRC legal advisers to the Company, as the land grant procedures in respect of the Sheung Ping Property had not been completed, the PRC legal advisers cannot opine on the legal validity and enforceability of the Sale and Purchase Agreement and the transactions contemplated thereunder nor can they opine on whether any dispute will arise as a result of the parties’ rights being adversely affected due to the requisite land grant procedures not having been completed. Nevertheless, as a result of negotiations with Sheung Ping Committee and taking into account previous dealings between RJP and Sheung Ping Committee, Sheung Ping Committee agreed to purchase whatever rights and interests (if any) Dongguan Incar and Dongguan Man Lee may have in the Sheung Ping Property and entered into the Sale and Purchase Agreement.

The Directors are of the view that the Consideration is fair and reasonable in light of the current market conditions in the PRC and, in particular, investment prospects in the Sheung Ping property market and shortage of land in the Sheung Ping area. The Sale is on normal commercial terms and in the best interests of the Company and its shareholders as a whole as the cash raised from the Sale will improve the Company’s liquidity and increase the funds available for general working capital. The Directors are not aware of any arrangement or matter regarding the Sale that were material and which have not been disclosed in the Circular. However, investors should be aware that action may be taken by Sheung Ping Committee and other PRC authorities against the Group as the Sale and Purchase Agreement and the transactions contemplated thereunder may not be valid and enforceable in accordance with PRC laws and regulations. Shareholders and potential investors should exercise caution when dealing in the Shares.

GENERAL

The Sale constitutes a major transaction of the Company under Rule 14.06(3) of the Listing Rules.

A notice convening the SGM to be held at 2:00 p.m. on Friday, 26 November 2004 at The Oregon Room, The American Club, 47th Floor, Two Exchange Square, No. 8 Connaught Place, Central, Hong Kong is set out on pages 73 to 74 of this circular for the purpose of considering and, if thought fit, approving the Sale and Purchase Agreement and the transactions contemplated thereunder. To the best knowledge of the Directors, no Shareholders are required to abstain from voting at the SGM.

You will find enclosed a form of proxy for use at the SGM. Whether or not you are able to attend the SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company’s principal place of business at Unit 3402, 34th Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the SGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM, or any adjournment thereof, should you so wish.

LETTER FROM THE BOARD

Pursuant to Bye-Law 76 of the bye-laws of the Company, a resolution put to the vote of a meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded by: (i) the chairman; or (ii) at least three members present in person or by proxy or by representative for the time being entitled to vote at the meeting; or (iii) a member or members present in person or by proxy or by representative and representing not less than one-tenth of the total voting rights of all members having the right to vote at the meeting; or (iv) by a member or members present in person or by proxy or by representative and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

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

	<i>Notes</i>	2003 <i>HK\$'000</i>	2002 <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>	2003 <i>HK\$'000</i>	2002 <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
		<u>169,943</u>	<u>217,530</u>
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	Treasury shares	Share premium account	Investment revaluation reserve	Investment property revaluation reserve	Capital redemption reserve	Capital reserve	Distri- butable reserve	Transla- tion reserve	Accu- mulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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 HK15,536,000 (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*

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
OPERATING ACTIVITIES		
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/>
NET CASH USED IN OPERATING ACTIVITIES	(37,266)	(11,188)

	<i>Note</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
INVESTING ACTIVITIES			
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)
NET CASH FROM (USED IN) INVESTING ACTIVITIES		9,909	(16,127)
FINANCING ACTIVITIES			
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
NET CASH (USED IN) FROM FINANCING ACTIVITIES		(10,769)	90,484

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(38,126)	63,169
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	<u>74,477</u>	<u>11,308</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	<u><u>36,351</u></u>	<u><u>74,477</u></u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents as previously reported		60,941
Effect of reclassification of import loans		<u>13,536</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	<u>(8,576)</u>	<u>(4,198)</u>
	<u><u>36,351</u></u>	<u><u>74,477</u></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

	2003	2002
	<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	<u>109,263</u>	<u>10,592</u>	<u>–</u>	<u>6,011</u>	<u>125,866</u>
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					<u>(167,386)</u>

	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						<u>497,690</u>
Liabilities						
Segment liabilities	19,603	23,854	32	2,992	–	46,481
Unallocated corporate liabilities					174,245	174,245
Consolidated total liabilities						<u>220,726</u>
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:

	Manufacture and distribution of electronic products <i>HK\$'000</i>	Property and investment holding <i>HK\$'000</i>	Property development <i>HK\$'000</i>	Total <i>HK\$'000</i>	
Turnover	<u>180,820</u>	<u>11,075</u>	<u>–</u>	<u>191,895</u>	
Results					
Segment results	2,427	(16,042)	–	(13,615)	
Unallocated corporate expenses				<u>(21,056)</u>	
Loss from operations				(34,671)	
Finance costs				(5,259)	
Loss on disposal of subsidiaries				<u>(18)</u>	
Loss before taxation				(39,948)	
Taxation				<u>(182)</u>	
Loss before minority interests				(40,130)	
Minority interests				<u>(12,213)</u>	
Net loss for the year				<u><u>(27,917)</u></u>	
	Manufacture and distribution of electronic products <i>HK\$'000</i>	Property and investment holding <i>HK\$'000</i>	Property development <i>HK\$'000</i>	Corporate <i>HK\$'000</i>	Total <i>HK\$'000</i>
Assets					
Segment assets	73,991	333,761	252,284	–	660,036
Unallocated corporate assets				69,184	<u>69,184</u>
Consolidated total assets					<u><u>729,220</u></u>
Liabilities					
Segment liabilities	26,776	21,196	–	–	47,972
Unallocated corporate liabilities				167,204	<u>167,204</u>
Consolidated total liabilities					<u><u>215,176</u></u>
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:

	Sales revenue by geographical market	
	2003	2002
	<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:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2003	2002	2003	2002
	<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

	2003	2002
	<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

	2003 <i>HK\$'000</i>	2002 <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

	2003 <i>HK\$'000</i>	2002 <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 HK\$'000	2002 HK\$'000
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 is calculated at 17.5% (2002: 16%) of the estimated assessable profit for the current year.

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

	THE GROUP HK\$'000
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)
	<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
	<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:

	2003 HK\$'000	2002 HK\$'000
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:

	2003 <i>HK\$'000</i>	2002 <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 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Unlisted investments, at cost	67,716	67,716
Amounts due from subsidiaries	882,511	871,087
	950,227	938,803
<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 (Note a)	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
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

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
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 CS1	100%	Property holding
Renima, Inc.	California	Ordinary US\$100,000	100%	Property holding
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	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	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 <i>HK\$'000</i>
COST	
At 1 July 2002 and 30 June 2003	1,100
AMORTISATION	
At 1 July 2002	110
Provided for the year	220
At 30 June 2003	330
NET BOOK VALUES	
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

	THE GROUP <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

	THE GROUP	
	2003	2002
	<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:

	THE GROUP	
	2003	2002
	<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:

	THE GROUP	
	2003	2002
	<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

	THE GROUP		THE COMPANY	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	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>
Less: 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	2002	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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: Finance charges relating to future periods</i>	<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: Amount due within one year shown under current liabilities</i>			<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.

28. SHARE CAPITAL

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

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	48,329,000	12,546

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	3	(1,786)	10,892	204,610	(231,992)	(18,273)

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 (<i>Note 11</i>)	(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
Tax 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:				
Tax losses	–	–	(5,026)	(4,553)

Deferred tax asset has not been recognised in the financial statements in respect of tax losses available to offset future profits as it is not certain that the tax 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:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
THE GROUP		
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>

THE COMPANY

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

	THE GROUP	
	2003 <i>HK\$'000</i>	2002 <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:

	THE GROUP	
	2003	2002
	<i>HK\$'000</i>	<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:

	2003	2002
	<i>HK\$'000</i>	<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:

	2003	2002
	<i>HK\$'000</i>	<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

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

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

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
Hong Kong			
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

Name/location	Lease expiry	Type	Effective % held
The People's Republic of China (excluding Hong Kong)			
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
Canada			
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
The British Virgin Islands						
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
The People's Republic of China (excluding Hong Kong)						
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
United States of America						
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 a summary of the unaudited condensed consolidated interim financial statements of the Group for the six months ended 31 December 2003 and the accompanying notes thereto as extracted from the Company's 2003/2004 interim report:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 31 December 2003

		Six months ended	
		31/12/03	31/12/02
		(Unaudited)	(Unaudited)
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	3	72,931	65,649
Cost of sales		<u>(54,588)</u>	<u>(54,125)</u>
Gross profit		18,343	11,524
Other revenue		1,048	282
Distribution costs		(1,795)	(1,793)
Administrative expenses		(26,347)	(27,175)
Interest income		583	1,107
Investment income		10	9
Impairment loss recognised in respect of properties under development		(24,482)	–
Impairment loss recognised in respect of investment properties		–	(48,292)
Loss on disposal of other securities		(6,176)	–
Gain on disposal of investment properties		1,496	–
Loss on disposal of plant and equipment		(835)	–
Impairment loss recognised in respect of other investment		–	(28,000)
Allowance on trade and other receivables		(1,920)	(7,100)
Allowance on inventory		<u>(2,200)</u>	<u>(2,000)</u>
Loss from operations		(42,275)	(101,438)
Finance costs		<u>(4,146)</u>	<u>(3,862)</u>
Loss before taxation	4	(46,421)	(105,300)
Taxation	5	<u>–</u>	<u>–</u>
Loss before minority interests		(46,421)	(105,300)
Minority interests		<u>1,215</u>	<u>24,407</u>
Loss for the period		<u><u>(45,206)</u></u>	<u><u>(80,893)</u></u>
Loss per share	6		
– Basic		<u><u>(4.80 cents)</u></u>	<u><u>(8.60 cents)</u></u>

CONDENSED CONSOLIDATED BALANCE SHEET

At 31 December 2003

	<i>Notes</i>	31/12/03 (Unaudited) <i>HK\$'000</i>	31/12/02 (Unaudited) <i>HK\$'000</i>
Non-current Assets			
Investment properties	7	99,820	147,787
Property, plant and equipment		259,788	298,423
Other securities		3,694	6,158
Other investments		22,170	38,145
Goodwill		660	880
Negative goodwill		(42,630)	(46,119)
		<u>343,502</u>	<u>445,274</u>
Current Assets			
Inventory		9,776	8,145
Trade and other receivables	8	48,103	71,264
Short-term loans receivable		2,188	28,046
Pledged bank deposits		3,229	3,207
Other time deposits		38,011	38,011
Bank balances and cash		19,186	13,353
		<u>120,493</u>	<u>162,026</u>
Less: Current Liabilities			
Trade and other payables	9	56,063	48,842
Tax payable		3,400	6,000
Bank borrowings			
– due within one year		101,172	108,724
Other borrowings			
– secured		20,093	1,930
Obligations under finance leases			
– due within one year		10,099	1,711
		<u>190,827</u>	<u>167,207</u>
Net Current Liabilities		<u>(70,334)</u>	<u>(5,181)</u>
		<u><u>273,168</u></u>	<u><u>440,093</u></u>

		31/12/03	31/12/02
		(Unaudited)	(Unaudited)
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital and Reserves			
Share capital	<i>10</i>	188,216	188,216
Treasury shares		(12,546)	(12,546)
Reserves		(40,228)	84,889
		<u>135,442</u>	<u>260,559</u>
Minority interests		<u>105,024</u>	<u>120,824</u>
Non-current Liabilities			
Amount due to a minority shareholder		1,083	1,073
Bank borrowings			
– due after one year		28,923	49,950
Deferred taxation		383	647
Obligations under finance leases			
– due after one year		2,313	7,040
		<u>32,702</u>	<u>58,710</u>
		<u><u>273,168</u></u>	<u><u>440,093</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)

For the six months ended 31 December 2003

	Share capital	Treasury shares	Share premium account	Investment		Capital redemption reserve	Capital reserve	Distri- butable reserve	Transla- tion reserve	Deficit	Total
				revaluation reserve	property revaluation reserve						
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 July 2002	188,216	(12,546)	3	(14,598)	10,378	10,892	220,414	93,961	(3,093)	(142,488)	351,139
Exchange differences arising from translation of operations outside Hong Kong	-	-	-	-	-	-	-	-	1,384	-	1,384
Deficit on revaluation of investment properties	-	-	-	-	(11,071)	-	-	-	-	-	(11,071)
Net loss for the period	-	-	-	-	-	-	-	-	-	(80,893)	(80,893)
At 31 December 2002	<u>188,216</u>	<u>(12,546)</u>	<u>3</u>	<u>(14,598)</u>	<u>(693)</u>	<u>10,892</u>	<u>220,414</u>	<u>93,961</u>	<u>(1,709)</u>	<u>(223,381)</u>	<u>260,559</u>
At 1 July 2003	188,216	(12,546)	3	(16,128)	-	10,892	220,414	93,961	(3,322)	(309,874)	171,616
Eliminated on disposal of other securities	-	-	-	8,598	-	-	-	-	-	-	8,598
Exchange differences arising from translation of operations outside Hong Kong	-	-	-	-	-	-	-	-	434	-	434
Net loss for the period	-	-	-	-	-	-	-	-	-	(45,206)	(45,206)
At 31 December 2003	<u>188,216</u>	<u>(12,546)</u>	<u>3</u>	<u>(7,530)</u>	<u>-</u>	<u>10,892</u>	<u>220,414</u>	<u>93,961</u>	<u>(2,888)</u>	<u>(355,080)</u>	<u>135,442</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 31 December 2003*

	31/12/03 <i>HK\$'000</i>	31/12/02 <i>HK\$'000</i>
Net cash outflow from operating activities	(10,579)	(18,511)
Net cash outflow from returns on investments and servicing of finance	(3,563)	(2,747)
Net cash inflow/(outflow) from investing activities	30,421	(10,727)
Net cash inflow/(outflow) before financing	16,279	(31,985)
Net cash inflow from financing	3,800	4,307
Increase/(decrease) in cash and cash equivalents	20,079	(27,678)
Cash and cash equivalents at beginning of the period	36,351	60,941
Cash and cash equivalents at end of the period	<u>56,430</u>	<u>33,263</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 31 December 2003

1. BASIS OF PREPARATION

The unaudited condensed consolidated interim accounts (“interim accounts”) are prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) 25, “Interim Financial Reporting”, issued by the Hong Kong Society of Accountants (“HKSA”) and Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”).

2. PRINCIPAL ACCOUNTING POLICIES

In the current period, the Group has adopted SSAP 12 (Revised) “Income Taxes” issued by the HKSA, which is effective for the accounting period commencing on or after 1 January 2003. The SSAP 12 (Revised) principally prescribes the accounting treatment and disclosure for deferred tax. In prior years, deferred tax was accounted for at the current tax rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The SSAP 12 (Revised) requires that deferred tax be provided in full, using the liabilities method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred taxation is provided for temporary differences arising from investments in subsidiaries and associated companies, except where the timing of reversal of the temporary differences can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future. The adoption of SSAP 12 (Revised) had no material effect on the results for the current or prior accounting periods. Accordingly, no adjustments for prior accounting periods are required.

3. SEGMENT INFORMATION

Turnover represents the net amounts received and receivable for goods sold to outside customers and rental income from properties under operating leases during the year.

(a) Business segments

For management purposes, the Group is currently organised into three operating divisions - manufacture and distribution of electronic products, property and investment holding and manufacture and marketing of nano and herbal products. These divisions are the basis on which the Group reports its primary segment information.

Business segment information for the six months ended 31 December 2003:

	Manufacture and distribution of electronics products <i>HK\$'000</i> (Unaudited)	Property and investment holding <i>HK\$'000</i> (Unaudited)	Manufacture and marketing of nano and herbal products <i>HK\$'000</i> (Unaudited)	Property development <i>HK\$'000</i> (Unaudited)	Period ended 31 December 2003 Total <i>HK\$'000</i> (Unaudited)
Turnover	<u>55,251</u>	<u>6,097</u>	<u>11,583</u>	<u>–</u>	<u>72,931</u>
Results					
Segment results	705	(13,860)	(3,632)	(26,732)	(43,519)
Unallocated corporate income					2,079
Unallocated corporate expenses					(835)
Loss from operations					(42,275)
Finance costs					(4,146)
Loss before taxation					(46,421)
Taxation					–
Loss before minority interests					<u>(46,421)</u>

Business segment information for the six months ended 31 December 2002:

	Manufacture and distribution of electronics products <i>HK\$'000</i> (Unaudited)	Property and investment holding <i>HK\$'000</i> (Unaudited)	Manufacture and marketing of nano and herbal products <i>HK\$'000</i> (Unaudited)	Property development <i>HK\$'000</i> (Unaudited)	Period ended 31 December 2002 Total <i>HK\$'000</i> (Unaudited)
Turnover	<u>60,259</u>	<u>5,327</u>	<u>63</u>	<u>–</u>	<u>65,649</u>
Results					
Segment results	(1,668)	(60,992)	(1,175)	(7,491)	(71,326)
Unallocated corporate income					1,398
Unallocated corporate expenses					(31,510)
Loss from operations					(101,438)
Finance costs					(3,862)
Loss before taxation					(105,300)
Taxation					–
Loss before minority interests					<u>(105,300)</u>

(b) Geographical segments

The Group's operations are located in Hong Kong, United States of America, Europe, the People's Republic of China other than Hong Kong (the "PRC") and other Asian countries.

The following table provides an analysis of the Group's sales by geographical markets irrespective of the origin of the goods or services:

	Turnover	
	For the six months ended 31 December	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Hong Kong	41,416	47,703
United States of America	14,765	11,409
Europe	54	408
PRC	7,673	3,199
Other Asian countries	9,023	2,930
	<u>72,931</u>	<u>65,649</u>

4. LOSS BEFORE TAXATION

	For the six months ended 31 December	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Loss before taxation has been arrived at after charging:		
Amortisation of goodwill (included in administrative expenses)	110	110
Depreciation and amortisation on		
– Assets owned by the Group	917	2,008
– Assets held under finance leases	724	225
and after crediting:		
Dividend income from listed securities	(10)	(9)
Gain on disposal of investment properties	(1,496)	–
Amortisation of negative goodwill	<u>(1,163)</u>	<u>–</u>

5. TAXATION

Hong Kong profits tax is calculated at the rate of 17.5% (2002: 16%) on the estimated assessable profits for the period.

No provision for Hong Kong profits tax was made for the period ended 31 December 2003 (2002: Nil) as the Company and its subsidiaries had no assessable profit for that period.

No provision for deferred tax has been made in respect of accelerated capital allowances as the Directors consider that no liability is expected to crystallise in the foreseeable future (2002: Nil).

6. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss attributable to shareholders of HK\$45,206,000 (2002: HK\$80,893,000) and on the weighted average of 941,080,745 (2002: 941,080,745) shares in issue during the period.

No diluted loss per share has been presented as the exercise price of the Company's outstanding warrants was higher than the average market price of the shares of the Company during both periods.

7. INVESTMENT PROPERTIES

	2003 (Unaudited) <i>HK\$'000</i>
VALUATION	
At 1 July 2003	107,680
Disposals	(7,860)
	<u>99,820</u>
At 31 December 2003	<u>99,820</u>
NET BOOK VALUES	
At 31 December 2003	<u>99,820</u>
At 30 June 2003	<u>107,680</u>

The value of investment properties held by the Group comprises:

	2003 (Unaudited) <i>HK\$'000</i>
Held in Hong Kong:	
Long-term leases	71,600
Medium-term leases	2,920
Held outside Hong Kong:	
Medium-term leases	25,300
	<u>99,820</u>

8. TRADE AND OTHER RECEIVABLES

The following is an aged analysis of accounts receivables at the reporting date:

	31/12/03 (Unaudited) <i>HK\$'000</i>	31/12/02 (Unaudited) <i>HK\$'000</i>
Within due date	14,531	20,076
Overdue under 30 days	13,142	25,541
Overdue 31-60 days	10,694	18,166
Overdue over 60 days	9,736	7,481
	<u>48,103</u>	<u>71,264</u>

9. TRADE AND OTHER PAYABLES

The following is an aged analysis of accounts payables at the reporting date:

	31/12/03 <i>HK\$'000</i> (Unaudited)	31/12/02 <i>HK\$'000</i> (Unaudited)
Within due date	15,545	12,258
Overdue under 30 days	17,922	11,597
Overdue 31-60 days	11,300	12,015
Overdue over 60 days	11,296	12,972
	<u>56,063</u>	<u>48,842</u>

10. SHARE CAPITAL

	Number of Ordinary shares	Amount <i>HK\$'000</i>
Ordinary shares of HK\$0.20 each		
<i>Authorised:</i>		
At 31 December 2002 and 31 December 2003	<u>2,000,000,000</u>	<u>400,000</u>
<i>Issued and fully paid:</i>		
At 31 December 2002 and 31 December 2003	<u>941,080,745</u>	<u>188,216</u>

11. 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 31 December 2003, the Company had outstanding warrants of HK\$90,880,000. Exercise in full of such warrants would result in the issue of approximately 189,334,000 shares at a subscription price of HK\$0.48 per share, subject to adjustment.

12. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to confirm with current period's presentation.

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

29 October 2004

The Directors

Applied International Holdings Limited

Unit 3402, 34th Floor
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

Dear Sirs,

**RE: VALUATION OF TWO PROPERTIES IN
THE PEOPLE'S REPUBLIC OF CHINA (THE "PRC")**

1. INSTRUCTION

In accordance with the instructions from Applied International Holdings Limited (referred to as the "Company"), we have valued the captioned properties (referred to as the "Properties") situated in the PRC held by the Company or its subsidiaries (the Company and its subsidiaries are altogether referred to as the "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 Properties as at 31 August 2004 (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 have no commercial value due to the fact that the land grant procedures including land premium payment for the Properties have not yet been completed as at the valuation date.

The depreciated replacement costs of the Properties as at the valuation date as disclosed in the footnotes to the valuation certificate were arrived at based on the new replacement cost of the buildings thereon 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 the Properties plus adequate net working capital and the value of any assets not included in this valuation.

4. ASSUMPTIONS

We have assumed that the owner of the Properties has free and uninterrupted rights to use the Properties for the whole of the unexpired terms subject to payment of annual land use fees and all requisite land premium/purchase consideration payable has been fully settled.

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

5. TITLE INVESTIGATION

In our valuation of the Properties, 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 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 building services. All dimensions, measurements and areas are approximate.

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 the Properties in which the Company has a valid interest.

We have no reason to doubt the truth and accuracy of the information 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.

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 comply with all the requirements contained in Chapter 5 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Practice Notes 12 issued by The Stock Exchange of Hong Kong Limited.

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	Tse Wai Leung
MRICS MHKIS RPS (GP)	BSc MRICS MHKIS RPS(GP)
<i>Director</i>	<i>Director</i>

Note: Both Wayne W.K. Lee and Tse Wai Leung are members of the Royal Institution of Chartered Surveyors, the Hong Kong Institute of Surveyors and Registered Professional Surveyors in General Practice. Tse Wai Leung is also a qualified real estate appraiser in the PRC. Both of them have over ten years' experience in valuation of properties in Hong Kong, Macau and the PRC.

Encl.

SUMMARY OF VALUATION

Properties held for investment

Property	Open market value as at 31 August 2004	Interest attributable to the Company	Value of property interest attributable to the Company as at 31 August 2004
1. North Portion of Starmate Industrial Park, Tutang District, Changping Town, Dongguan, Guangdong Province, the PRC.	No commercial value	100%	No commercial value
2. South Portion of Starmate Industrial Park, Tutang District, Changping Town, Dongguan, Guangdong Province, the PRC.	No commercial value	100%	No commercial value
Grand total:	<u>No commercial value</u>		<u>No commercial value</u>

VALUATION CERTIFICATE

Properties held for investment

Property	Description	Particulars of occupancy	Open market value as at 31 August 2004
1. North Portion of Starmate Industrial Park, Tutang District, Changping Town, Dongguan, Guangdong Province, the PRC.	<p>The property comprises a site with an area of approximately 28,886.3 square metres.</p> <p>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. The aforesaid buildings were completed in the 1990s.</p>	As at the date of our valuation, the property was subject to various tenancies with the latest tenancy expiring on 30 June 2006 at a total current monthly rent of RMB130,181.	No commercial value (Please see note 3)

Notes:

1. 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.
2. 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
3. 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.
4. The legal opinion from Hills & Co., the PRC legal advisers to the Company, on the property is summarized as follows:
 - 4.1 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.;
 - 4.2 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 dispose of the property;
 - 4.3 Pursuant to a sale and purchase agreement dated 23 September 2004 entered into between RJP International Limited (“RJP”) and 東莞常平鎮土塘村委會 (“Sheung Ping Committee”), RJP agreed to transfer the land and buildings of the property to Sheung Ping Committee;
 - 4.4 As the land grant procedures for the property have not yet been completed, the enforceability of the aforesaid sale and purchase agreement cannot be ascertained.
5. As confirmed by the Company, the total land premium of approximately RMB4,540,000 to be incurred for completing land grant procedures for the property shall be payable by the owner of the property. There are no other outstanding costs payable.

Property	Description	Particulars of occupancy	Open market value as at 31 August 2004
2. South Portion of Starmate Industrial Park, Tutang District, Changping Town, Dongguan, Guangdong Province, the PRC.	<p>The property comprises a site with an area of approximately 19,639.9 square metres.</p> <p>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. The aforesaid buildings were completed in the 1990s.</p>	As at the date of our valuation, portion of the property with a total gross floor area of 11,202.04 square metres were subject to various tenancies with the latest tenancy expiring on 31 January 2009 at a total current monthly rent of RMB65,800 whilst the remaining portion of the property was vacant.	No commercial value <i>(Please see note 3)</i>

Notes:

1. 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.
2. 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
3. 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.
4. The legal opinion from Hills & Co., the PRC legal advisers to the Company, on the property is summarized as follows:
 - 4.1 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.;
 - 4.2 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 dispose of the property;
 - 4.3 Pursuant to a sale and purchase agreement dated 23 September 2004 entered into between RJP International Limited (“RJP”) and 東莞常平鎮土塘村委會 (“Sheung Ping Committee”), RJP agreed to transfer the land and buildings of the property to Sheung Ping Committee;
 - 4.4 As the land grant procedures for the property have not yet been completed, the enforceability of the aforesaid sale and purchase agreement cannot be ascertained.
5. As confirmed by the Company, the total premium of approximately RMB3,810,000 to be incurred for completing land grant procedures for the property shall be payable by the owner of the property. There are no other outstanding costs payable.

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually 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, there are no other facts not contained herein the omission of which would make any statement contained in this circular misleading.

DISCLOSURE OF INTERESTS**(a) Interests of Directors**

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives 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) or 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 position in shares of associated corporations

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

Notes:

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

	Number of Shares
Malcolm Trading Inc.	43,992,883
Primore Co. Inc.	2,509,266
Capita Company Inc.	359,153,435
iQuorum Cybernet Limited	48,329,000
	453,984,584

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 are held by iQuorum Cybernet Limited which is a wholly-owned subsidiary of the Company. As Capita Company Inc. owns more than one-third of the issued Shares and Capita 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, an 89% 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 executives 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) or 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, RHL Appraisal Limited and Hills & Co. had any direct or indirect interest 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 contract or arrangement subsisting at the date of this circular which is significant in relation to the business of the Group.

(b) Interests of Shareholders

As at the Latest Practicable Date, so far as is known to the Directors and the chief executives 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 Divisions 2 and 3 of Part XV of the SFO.

Name	Capacity	Number of Shares	% shareholding
Capita Company Inc.	Beneficial	359,153,435	38.16%
Marami Foundation	Corporate	453,984,584 <i>(Note 1 above)</i>	48.24%
iQuorum Cybernet Limited	Beneficial	48,329,000	5.13%

(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 10 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
Wideland Electronics Limited	Fan Shek Yui	30%
Wideland Electronics Limited	Ma Yi Fat	19%

Save as disclosed above, the Directors and the chief executives 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 10 per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at a general meeting of any other member of the Group.

SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has entered into any service agreement with any member of the Group nor are there any other service agreements proposed which will not expire or be determinable by the Company within one year without payment of compensation (other than statutory compensation).

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.

COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or any of his/her associates (as such term is defined in the Listing Rules) had an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group other than those businesses to which the Directors were appointed to represent the interests of the Company and/or the Group.

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 ending on the Latest Practicable Date which are or may be material:

- (a) the Sale and Purchase Agreement;
- (b) a share transfer agreement dated 9 September 2004 (the “Share Transfer Agreement”) entered into between, among others, the Company, Applied China Properties Limited (“Applied Properties”) (a wholly-owned subsidiary of the Company) and Mr. Lai Kwok Wah (“Mr. Lai”) pursuant to which, inter alia, Applied Properties conditionally agreed to sell to Mr. Lai 2 shares of US\$100 each in Applied Properties (Jiang Men) Ltd. S.A. (“Applied Jiangmen”),

- representing the entire issued share capital of Applied Jiangmen (the “Jiangmen Shares”). Applied Jiangmen held a piece of land situated in Jiangmen, PRC through its interest in 江門實力發展(地產)有限公司 (Applied Properties (Jiangmen) Limited). Pursuant to the Share Transfer Agreement, Applied Properties also agreed to assign to Mr. Lai its entire legal and beneficial interest in loans which it extended to Applied Jiangmen which amounted to an outstanding aggregate sum of HK\$24,411,291 as at 8 September 2004, which is unsecured, non-interest bearing and repayable on demand (the “Shareholder’s Loan”). The consideration payable by Mr. Lai pursuant to the Share Transfer Agreement is RMB15,000,000 (approximately HK\$14,136,940) (adopting an exchange rate of RMB1.061 to HK\$1.00) of which RMB14,998,400 (approximately HK\$14,135,432) is attributable to the assignment of the Shareholder’s Loan and RMB1,600 (approximately HK\$1,508) is attributable to the sale of the Jiangmen Shares. Further details of the above sale and loan assignment are set out in the Company’s announcement dated 13 September 2004;
- (c) a sale and purchase deed dated 1 December 2003 entered into between MACRO-LINK International Investment Co, Ltd., the Company and Mr. Hung Kin Sang, Raymond pursuant to which, inter alia, the Company sold 861,887,920 shares in the issued capital of Applied China Limited to MACRO-LINK International Investment Co, Ltd. for an aggregate consideration of HK\$123 million, further details of which are set out in the Company’s announcement dated 5 December 2003;
- (d) a disposal agreement dated 1 December 2003 entered into between Applied China Limited and the Company pursuant to which, inter alia, Applied China sold to the Company its interest in the entire issued share capital of iQuorum Cybernet Limited for a consideration of HK\$51,405,065 and procured the assignment of certain accounts receivables to the Company for a consideration of HK\$1,881,677, further details of which are set out in the Company’s announcement dated 5 December 2003; and
- (e) a sale and purchase agreement dated 20 October 2003 (as supplemented by two supplemental agreements thereto both dated 20 October 2003) entered into 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 an aggregate consideration of approximately RMB 65 million (approximately HK\$61,320,755) (at the rate of RMB 1.06 to HK\$1.00)), further details of which are set out in the Company’s announcement dated 27 October 2003.

INDEBTEDNESS

At the close of business on 31 August 2004 (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\$60.4 million which was secured by certain of the Group's bank deposits, investment properties and property, plant and equipment amounting to approximately HK\$3.0 million, HK\$89.2 million and HK\$2.5 million, respectively. In addition, the Group had outstanding at that date unsecured other loans of approximately HK\$17.5 million and obligations under finance leases of approximately HK\$4.5 million.

Save as aforesaid and apart from intra-group liabilities, the Group did not have any outstanding mortgage, charge, debenture, loan capital and overdraft or other similar indebtedness, finance lease or hire purchase commitment, liabilities under acceptance or acceptance credit or any guarantee or other material contingent liability as at the close of business on 31 August 2004.

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 August 2004.

The Directors have confirmed that there has been no material change in the indebtedness or contingent liabilities of the Group since 31 August 2004.

FINANCIAL AND TRADING PROSPECTS

As disclosed in the Company's 2003/2004 interim report, the Group's unaudited turnover for the period ended 31 December 2003, was approximately HK\$73 million, which represented an increase of 11% as compared to the period ended 31 December 2002. The administrative expenses for the period ended 31 December 2003 were approximately HK\$26 million, which represented a decrease of 3% as compared to the expenses incurred for the period ended 31 December 2002.

The unaudited consolidated loss for the period ended 31 December 2003 was approximately HK\$45 million (as compared to an unaudited consolidated loss of HK\$81 million for the period ended 31 December 2002). This included an impairment loss recognised in respect of properties held for development of approximately HK\$24.5 million, allowance on trade and other receivables of approximately HK\$1.9 million and allowance on inventory of approximately HK\$2.2 million. Other losses incurred during the same period were mainly due to the marketing costs spent in diversification of the Group's business into conducting and promoting network marketing business in Australia and the United States of America.

During the period ended 31 December 2003, the Group's OEM (original equipment manufacturing) business has generated a steady income stream and was able to maintain its market share despite competitive market conditions. Following the Sale, the Group will continue to focus on reallocating its resources to higher-growth products and consolidating the operations of its core businesses while at the same time seeking ways to integrate them more effectively to enhance greater returns to the Company and the Shareholders.

WORKING CAPITAL

The Directors are of the opinion that, taking into account the financial resources available to the Group including internally generated funds and credit facilities currently available to the Group, and in the absence of unforeseen circumstances, the Group has sufficient working capital to meet its present requirements.

COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or any of his/her associates (as such term is defined in the Listing Rules) had an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group other than those businesses to which the Directors were appointed to represent the interests of the Company and/or the Group.

EXPERT

The following is the qualification of the expert who has given opinion or advice which is contained in this circular:

Name	Qualification
Hills & Co.	PRC legal advisers to the Company
RHL Appraisal Limited	professional property valuation firm

RHL Appraisal Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and report and references to its name in the form and context in which they respectively appear. It does not have any interest in any Shares or shares in any member of the Group nor does it have any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member of the Group.

GENERAL

- (i) The secretary of the Company is Lee Wai Fun, Betty, associate member of The Institute of Chartered Secretaries and Administrators and associate member of The Hong Kong Institute of Company Secretaries.
- (ii) The qualified accountant of the Company is Cheng Kong Lung, Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and fellow member of the Association of Chartered Certified Accountants in the United Kingdom.
- (iii) The share registrar and transfer office of the Company in Hong Kong is located at Computershare Hong Kong Investor Services Limited of 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (iv) The English version of this circular shall prevail over the Chinese text.
- (v) The following documents are available for inspection at the Company's principal place of business in Hong Kong at Unit 3402, 34th Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong during normal business hours for a period of up to 14 days after the date of this circular:
 - (a) the memorandum and bye-laws of the Company;
 - (b) the material contracts as disclosed in this circular;
 - (c) the valuation report on the Sheung Ping Property prepared by RHL Appraisal Limited, the text of which is set out in Appendix II to this circular;
 - (d) all reports, letters or other documents, balance sheets, valuations and statements by any expert any part of which is extracted or referred to in this circular;
 - (e) the consolidated audited accounts of the Group for each of the two financial years ended 30 June 2003 together with all notes, certificates or information required by the Companies Ordinance; and
 - (f) a copy of each circular issued since 30 June 2003, being the date to which the Group's latest published audited consolidated financial statements were made up.



APPLIED INTERNATIONAL HOLDINGS LIMITED

實力國際集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 519)

NOTICE IS HEREBY GIVEN THAT a special general meeting of Applied International Holdings Limited will be held at 2:00 p.m. on Friday, 26 November 2004 at The Oregon Room, The American Club, 47th Floor, Two Exchange Square, No.8 Connaught Place, Central, Hong Kong for the purpose of considering and, if thought fit, passing the following resolution, with or without amendments, as an ordinary resolution of the Company:

ORDINARY RESOLUTION

“**THAT** the agreement dated 23 September 2004 entered into between RJP International Limited and 東莞市常平鎮土塘村委會 (the “Sale and Purchase Agreement”) (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 the directors be and are hereby authorised to do all things and acts and sign all documents which they consider necessary, desirable or expedient in connection with the transactions contemplated under the Sale and Purchase Agreement.”

By order of the Board

Applied International Holdings Limited

Fang Chin Ping

Director

Hong Kong, 29 October 2004

Registered office:

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

Principal place of business:

Unit 3402, 34th Floor
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

* For identification only

NOTICE OF SGM

Notes:

1. Any member of the Company entitled to attend and 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 Unit 3402, 34th Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught 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 proposes 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.