

The directors present their annual report and the audited financial statements for the year ended 30th June, 2001.

## **GROUP REORGANISATION**

On 22nd February, 2001, a reorganisation scheme (the "Reorganisation Scheme") involving a change of domicile of the Company under Section 166 of the Companies Ordinance would be proposed to the shareholders of the Company. Upon the Reorganisation Scheme becoming effective, the Company will become a wholly-owned subsidiary of Applied (China) Limited, an exempted company incorporated in Bermuda with limited liability under the Companies Act 1981 of Bermuda. The shares of Applied (China) Limited will be listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") by way of introduction and Applied (China) Limited will replace the company as the publicly listed company on the Stock Exchange. Pursuant to a special resolution passed in an extraordinary general meeting of the Company held on 2nd August, 2001, the Reorganisation Scheme has been approved by the shareholders of the Company. As at the report date, the court has not yet confirmed a date that it is able to hear the Company's petition to sanction the Reorganisation Scheme.

Implementation of the Reorganisation Scheme will not, except in respect of the repayment of expenses relating thereto, after the underlying assets, liabilities, business, management or financial position of the Group.

Details of the Reorganisation Scheme are set out in the Company's circular dated 10th July, 2001.

## **PRINCIPAL ACTIVITIES**

The Company is an investment holding company and its principal subsidiaries are engaged in the manufacture and trading of electronic products and property investment. The Group's head office is in Hong Kong and all of its manufacturing operations are located in the People's Republic of China.

## **RESULTS**

The Group's results for the year are set out in the consolidated income statement on page 17.

## **MAJOR SUPPLIERS AND CUSTOMERS**

During the year, the aggregate purchases attributable to the Group's five largest suppliers comprised approximately 50% of the Group's total purchases and the purchases attributable to the Group's largest supplier was approximately 17%.

The aggregate sales attributable to the Group's five largest customers was approximately 64% and the sales attributable to the Group's largest customer was approximately 24%.

None of the directors, their associates or shareholders which, to the knowledge of the directors, owned more than 5% of the Company's issued share capital had any beneficial interest in the five largest suppliers or customers of the Group.



# Directors' Report

## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial periods is set out on page 53.

## SHARE CAPITAL, WARRANTS AND SHARE OPTIONS

Details of movements during the year in the share capital, warrants and share options of the Company are set out respectively in notes 25 to 27 to the financial statements, respectively.

## RESERVES

Details of movements during the year in the reserves of the Group and of the Company are set out in note 28 to the financial statements.

## INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

An investment property with a fair value of HK\$77,800,000 was acquired as a result of the acquisition of a subsidiary. During the year, a leasehold property with a net book value of approximately HK\$5,834,000 was reclassified as an investment property.

The investment properties of the Group were revalued on 30th June, 2001 by an independent firm of professional property valuers on an open market value existing use basis and the resulting deficit on revaluation of these properties amounting to approximately HK\$7,534,000 has been charged directly to the investment property valuation reserve. Details of these and other movements in the investment properties of the Group and of the Company during the year are set out in note 12 to the financial statements.

Details of these and other movements during the year in the property, plant and equipment of the Group and of the Company are set out in note 13 to the financial statements.

## MAJOR PROPERTIES

Details of the major properties of the Group as at 30th June, 2001 are set out on page 54.

## DIRECTORS

The directors during the year and up to the date of this report were:

*Executive directors:*

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

*Independent non-executive directors:*

Mr. Lun Tsan Kau  
Mr. Lo Yun Tai

In accordance with Articles 77, 78 and 79 of the Company's Articles of Association, Mr. Lo Yun Tai will retire at the forthcoming annual general meeting and, being eligible, will offer himself for re-election. All of the remaining directors will continue in office.

Mr. Lo Yun Tai does not have any service contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation (other than statutory compensation). The term of office of each non-executive director is the period up to his retirement by rotation in accordance with the Company's Articles of Association.

## CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

**Details of discloseable connected transactions for the year are as follows:**

- (a) In November 2000, the Company advanced a total of HK\$24,016,480 to Applied International Holdings Limited ("AIHL") for the purpose of financing the repayment of convertible bonds issued by AIHL to the public. The Company is owned as to 55% by AIHL, a company which shares are also listed on the Stock Exchange of Hong Kong Limited ("Stock Exchange"). Interest was charged on the loan at the rate of 2% over the Prime Lending Rate per annum and the loan was made on normal commercial terms. The total interest income received by the Company from AIHL amounted to HK\$1,057,089.

Rule 14.26(6)(a) of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") renders the lending of money by the Company to AIHL, a connected transaction of the Company as the lending is a grant of financial assistance by a listed issuer to a connected person, not in the ordinary and usual course of business of the Company.

The directors of the Company confirmed that the amount advanced has been fully repaid by AIHL to the Company as at 30th June, 2001.

- (b) On 1st September, 2000, Applied Electronics Limited ("AEL"), a wholly-owned subsidiary of AIHL, entered into an agreement with the Company to dispose of the entire issued share capital of Applied Technology Limited, a wholly-owned subsidiary of AEL, for a cash consideration of HK\$51,300,000. The acquisition was completed on 24th October, 2000. Details of the acquisition were set out in the press announcement dated 3rd September, 2000.

## CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE (*cont'd*)

- (c) As at 30th June, 2001, Mr. Hung Kin Sang, Raymond, a director of the Company, had outstanding guarantees issued in favour of a bank in respect of credit facilities granted by the bank to a subsidiary amounting to approximately HK\$3,919,000.
- (d) During the year, the aggregate value of the transactions entered into by RJP International Limited, a wholly-owned subsidiary of the Company, pursuant to the Contract Manufacture Agreement described in the Circular to Shareholders dated 26th August, 1996 did not exceed HK\$139.9 million for the twelve months ended 30th June, 2001.

In accordance with the conditions agreed with the Stock Exchange with respect to connected transactions, the independent non-executive directors of the Company have reviewed the connected transactions set out above and have confirmed that the transactions were carried out in accordance with the terms of the relevant agreement, or if the transaction is not governed by agreement:

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms; and
- (iii) on terms that are fair and reasonable so far as the shareholders of the Company are concerned.

Save as disclosed above:

- (i) no contracts of significance subsisted at the end of the year or at any time during the year to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly; and
- (ii) there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

- (a) The share options to subscribe for shares in the Company ("iQuorum Options") granted to the Company's directors are as follows:

Name of director	Exercise price HK\$	Number of shares subject to iQuorum Options		
		Outstanding at 1.7.2000	Lapsed during the year	Outstanding at 30.6.2001
Hung Wong Kar Gee, Mimi	0.25	6,960,000	6,960,000	—
Hung Kin Sang, Raymond	0.25	9,280,000	9,280,000	—
Fang Chin Ping	0.25	1,160,000	1,160,000	—

**DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES** (*cont'd*)

- (b) AIHL has granted options ("AIHL Options") to the Company's directors to subscribe for shares in AIHL.

Details of the AIHL Options granted to the Company's directors to subscribe for shares in AIHL are as follows:

<u>Name of director</u>	<u>Exercise price</u> <i>HK\$</i>	<u>Number of AIHL shares subject to AIHL Options outstanding at 1.7.2000 and 30.6.2001</u>
Hung Wong Kar Gee, Mimi	0.36	7,000,000
Hung Kin Sang, Raymond	0.36	8,400,000

The outstanding AIHL Options are exercisable at any time on or before 2nd July, 2002.

Save as disclosed above, at no time during the year was the Company or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debt securities, including debentures, of the Company or any other body corporate, and none of the directors or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such rights, during the year.

Details of the Company's share option scheme are set out in note 27 to the financial statements.

**DIRECTORS' INTERESTS IN SHARES**

According to the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code For Securities Transactions by Directors of Listed Companies in the Listing Rules, the interests of the directors and their associates in the issued share capital of the Company and its associated corporations (within the meaning of the SDI Ordinance) at 30th June, 2001 were as follows:

**(a) The Company**

<u>Name of director</u>	<u>Number of shares of the Company held Corporate interests</u> <i>(Note)</i>	<u>Number of warrants of the Company held Corporate interests</u> <i>(Note)</i>
Hung Wong Kar Gee, Mimi	1,273,198,075	236,810,015
Hung Kin Sang, Raymond	1,273,198,075	236,810,015

*Note:* 1,244,764,337 shares and 234,810,068 warrants were held by Batimate Limited, and 2,238 shares and 447 warrants were held by Applied Electronics Limited, both of which are wholly-owned subsidiaries of AIHL. The remaining 28,431,500 shares and 1,999,500 warrants were held by AIHL. Mrs. Hung Wong Kar Gee, Mimi and Mr. Hung Kin Sang, Raymond are the substantial shareholders of AIHL.



# Directors' Report

## DIRECTORS' INTERESTS IN SHARES (cont'd)

### (b) AIHL

Name of director	Number of AIHL shares		Number of AIHL warrants	
	Personal interests	Other interests	Personal interests	Other interests
Hung Wong Kar Gee, Mimi	8,870,056	453,984,584 (Note)	1,774,011	90,796,916 (Note)
Hung Kin Sang, Raymond	3,130,000	453,984,584 (Note)	560,000	90,796,916 (Note)
Fang Chin Ping	100,000	–	20,000	–

Note: These shares and warrants were held by the following companies:

	Number of ordinary shares	Number of warrants
Malcom Trading Inc.	43,992,883	8,798,576
Primore Co. Inc.	2,509,266	501,853
Capita Company Inc.	359,153,435	71,830,687
The Company	48,329,000	9,665,800

Malcom Trading Inc., Primore Co. Inc. and Capita Company Inc. are wholly owned by Marami Foundation as the trustee of Raymond Hung/Mimi Hung & Family Trust. All units in Raymond Hung/Mimi Hung & Family Trust are beneficially owned by a discretionary trust, the beneficiaries of which include the family members of Hung Kin Sang, Raymond and Hung Wong Kar Gee, Mimi.

Save as disclosed herein and other than certain nominee shares in the subsidiaries held in trust for the Group, none of the directors, chief executives or their associates had any interests in the securities of the Company or any of its associated corporations within the meaning of the SDI Ordinance as at 30th June, 2001.

### SUBSTANTIAL SHAREHOLDERS

Other than the interests of Batimate Limited disclosed under the heading "Directors' interests in shares" above, according to the register required to be kept under Section 16(1) of the SDI Ordinance, there was no other shareholder who was interested in 10% or more of the share capital of the Company as at 30th June, 2001.

### PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, there was no purchase, sale or redemption of the shares of the Company by the Company or any of its subsidiaries.

## **DONATIONS**

During the year, the Group made charitable and other donations of approximately HK\$344,000.

## **POST BALANCE SHEET EVENTS**

Details of significant post balance sheet events are set out in note 45 to the financial statements.

## **CORPORATE GOVERNANCE**

In the opinion of the directors, the Company has complied throughout the year with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

## **AUDITORS**

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

**Hung Kin Sang, Raymond**

*Director*

Hong Kong, 22nd October, 2001