



Applied (China) Limited

(Incorporated in Bermuda with limited liability)

Interim Report 2001

(for the six months ended 31st December)

INTERIM REPORT

The Board of Directors (the "Directors") of Applied (China) Limited (the "Company") announce the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (the "Group") for the six months ended 31st December, 2001 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 31st December, 2001

	NOTES	Six months ended	
		31/12/01 (Unaudited) HK\$'000	31/12/00 (Unaudited) HK\$'000
Turnover	2	75,272	90,303
Cost of sales		<u>(64,244)</u>	<u>(76,279)</u>
Gross profit		11,028	14,024
Investment income		–	173
Other revenue		–	721
Interest income		63	2,808
Distribution costs		(2,138)	(2,915)
Administrative expenses		(13,180)	(20,426)
Gain on disposal of listed shares		–	8,887
(Loss) profit from operations		<u>(4,227)</u>	<u>3,272</u>
Finance costs		<u>(2,635)</u>	<u>(4,079)</u>
Loss before taxation		(6,862)	(807)
Taxation charge (credit)		–	–
Loss before minority interests		(6,862)	(807)
Minority interests		<u>473</u>	<u>442</u>
Loss for the period	3	<u><u>(7,335)</u></u>	<u><u>(1,249)</u></u>
Loss per share	4		
– Basic		<u><u>(1.3 cents)</u></u>	<u><u>(0.2 cents)</u></u>

CONDENSED CONSOLIDATED BALANCE SHEET

At 31st December, 2001

	NOTES	31/12/01 (Unaudited) HK\$'000	31/12/00 (Unaudited) HK\$'000
Non-current Assets			
Investment properties	5	253,755	206,611
Property, plant and equipment		59,866	79,696
Other securities		8,442	8,601
Other investments		54,282	52,131
		<u>376,345</u>	<u>347,039</u>
Current Assets			
Inventories		12,088	13,752
Trade and other receivables	6	39,701	64,898
Short-term loans receivable		6,965	3,096
Amount due from ultimate holding company		–	145
Taxation recoverable		–	43
Pledged time deposits		–	4,989
Other time deposits		4,672	425
Bank balances and cash		3,005	2,156
		<u>66,431</u>	<u>89,504</u>
Current Liabilities			
Trade and other payables	7	30,700	28,203
Obligations under finance leases – due within one year		253	284
Other borrowings – secured		2,530	16,792
Bank borrowings – due within one year		62,603	20,831
		<u>96,086</u>	<u>66,110</u>
Net Current (Liabilities)/Assets		<u>(29,655)</u>	<u>23,394</u>
		<u>346,690</u>	<u>370,433</u>

CONDENSED CONSOLIDATED BALANCE SHEET (continued)

At 31st December, 2001

		31/12/01	31/12/00
		(Unaudited)	(unaudited)
	<i>NOTES</i>	HK\$'000	HK\$'000
Capital and Reserves			
Share capital	8	5,746	574,631
Reserves	9	290,190	(226,404)
		<hr/>	<hr/>
		295,936	348,227
		<hr/>	<hr/>
Minority interests		4,546	6,951
		<hr/>	<hr/>
Non-current Liabilities			
Amount due to a minority shareholder		1,069	1,890
Borrowings – due after one year		45,139	13,365
		<hr/>	<hr/>
		46,208	15,255
		<hr/>	<hr/>
		346,690	370,433
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**CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED
GAINS AND LOSSES**

For the six months ended 31st December, 2001

	Six months ended	
	31/12/01	31/12/2000
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
(Deficit) Surplus on revaluation of investment properties	(12,800)	7,021
Unrealised holding loss on revaluation of other securities	—	(5,794)
	<hr/>	<hr/>
Gains not recognised in the income statement	(12,800)	1,227
Loss for the period	(7,335)	(1,249)
	<hr/>	<hr/>
Total recognised losses	(20,135)	(22)
Elimination against reserves of goodwill arising on acquisition of subsidiaries	—	(15)
	<hr/>	<hr/>
	<u>(20,135)</u>	<u>(37)</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31st December, 2001

	31/12/2001 (Unaudited) HK\$'000	31/12/2000 (Unaudited) HK\$'000
Net cash outflow from operating activities	(1,911)	(27,934)
Net cash (outflow) inflow from returns on investments and servicing of finance	(2,572)	230
Net cash outflow from investing activities	(63,145)	(65,177)
Net cash outflow before financing	(67,628)	(92,881)
Net cash inflow from financing	53,219	862
Decrease in cash and cash equivalents	(14,409)	(92,019)
Cash and cash equivalents and beginning of the period	(4,102)	77,737
Cash and cash equivalents at end of the period	(18,511)	(14,282)

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 31st December, 2001

1. ACCOUNTING POLICIES

This interim condensed financial reports has been prepared in accordance with the principal accounting policies set out in the Company's audited financial statements as at and for the year ended 30th June, 2001 and comply with Statement of Standard Accounting Practice ("SSAP") Number 25 issued by the Hong Kong Society of Accountants ("HKSA") and the disclosure requirements set out in Appendix 16 of the Listing Rules of The Stock Exchange of Hong Kong Limited.

2. SEGMENT INFORMATION

The Group's turnover and profit from operations for the six months ended 31st December 2001 analysed by product category, are as follows:

	Turnover		Profit from operations	
	For the six months		For the six months	
	ended 31st December		ended 31st December	
	2001	2000	2001	2000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By principal activity:				
Manufacture and distribution				
of Electronic products	71,523	85,959	2,542	761
Rental Income	3,749	4,344	667	772
	<u>75,272</u>	<u>90,303</u>	<u>3,209</u>	1,533
Unallocated corporate				
(expenses) income			(7,436)	1,739
(Loss) profit from operations			<u>(4,227)</u>	<u>3,272</u>
By geographical area:				
Mainland China	2,789	4,482		
North America	10,831	4,151		
Europe	6,286	23,506		
Hong Kong	53,730	51,715		
Other Asian Regions	1,636	6,449		
	<u>75,272</u>	<u>90,303</u>		

Note: For the six months ended 31st December, 2000, turnover has been restated to include rental income from properties under operating leases in order to conform with the revised definition of the Group's turnover.

3. LOSS FOR THE PERIOD

Of the Group's loss for the period, a loss of HK\$7,335,472 (2000: loss of HK\$1,249,321) has been dealt with in the financial statements of the Company.

4. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss attributable to shareholders of HK\$7,335,472 (2000: loss of HK\$1,249,321) and on the weighted average of 574,630,910 (2000: 574,630,910) shares in issue during the period.

The weighted average number of shares for the purpose of calculation of loss per share for the six months ended 31st December, 2000 has been adjusted for the effect of the Company's shares exchange as a result of the redomicile of the Group.

No diluted loss per share amount has been presented for both period as the exercise price of the share options and warrants (2000: share options) were higher than the market price of the Company's shares during both period.

5. INVESTMENT PROPERTIES

	2001 (Unaudited) HK\$'000
VALUATION	
At 1st July, 2001	204,900
Additions	61,655
Deficit on revaluations	(12,800)
	<hr/>
At 31st December, 2001	253,755
	<hr/>
NET BOOK VALUES	
At 31st December, 2001	253,755
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As at 30th June, 2001	204,900
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5. INVESTMENT PROPERTIES (continued)

The investment properties of the Group and of the Company were revalued at 30th June, 2001 by RHL International Property Consultants, Francis Lau & Co. (Surveyors) Ltd., an independent professional valuer, on an open market value basis with the exception of the property situated on 46/F., Far East Finance Centre, 16 Harcourt Road, Central, Hong Kong that disposed at a loss on 28th January, 2002 have been revalued to reflect its market value.

The value of investment properties held by the Group comprises the following:

	2001 (Unaudited) HK\$'000
Under long leases in Hong Kong	207,455
Under medium-term leases in the People's Republic of China (the "PRC")	46,300
	<hr/> 253,755 <hr/>

The investment properties held by the Company are under long leases in Hong Kong.

6. TRADE AND OTHER RECEIVABLES

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

	31/12/01 (Unaudited) HK\$'000	31/12/00 (Unaudited) HK\$'000
Within due date	17,415	13,234
Overdue under 30 days	8,577	11,947
Overdue 31–60 days	6,707	9,119
Overdue over 60 days	7,002	30,598
	<hr/> 39,701 <hr/>	<hr/> 64,898 <hr/>

7. TRADE AND OTHER PAYABLES

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

	31/12/01 (Unaudited) HK\$'000	31/12/00 (Unaudited) HK\$'000
Within due date	12,077	2,446
Overdue under 30 days	5,518	6,053
Overdue 31–60 days	7,159	4,468
Overdue over 60 days	5,946	15,236
	<u>30,700</u>	<u>28,203</u>

8. SHARE CAPITAL

	Number of Ordinary shares	Amount HK\$
Ordinary shares of HK\$0.01 each		
Authorised:		
At 31st December, 2001	<u>16,000,000,000</u>	<u>160,000,000</u>
Issued and fully paid:		
At 31st December, 2001	<u>574,630,910</u>	<u>5,746,309.10</u>

During the period a reorganisation involving a change of domicile of the Company by way of a scheme arrangement under Section 166 of the Companies Ordinance that with the interest of the shareholders remained unchanged, one holding share, at HK\$0.01 each had been in exchange for four scheme shares at HK\$0.25, and one holding warrant at HK\$1.00 each had been in exchange for four scheme warrants at HK\$0.25 each.

By way of introduction, the holdings share and holding warrant had been listed in the Hong Kong Stock Exchange on 20th December, 2001

9 RESERVES

	Investment				Goodwill	Contribution		Total	
	Shares	Investment	property	Currency		reserve	surplus		Deficit
	premium	revaluation	revaluation	translation					
account	reserve	reserve	reserve	reserve	surplus	Deficit	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1st July, 2001	35,612	(4,988)	39,324	(4,667)	(2,192)	-	(321,649)	(258,560)	
Deficit on revaluation of investment properties	-	-	(12,800)	-	-	-	-	(12,800)	
Premium arising from issue of shares	-	-	-	-	-	568,885	-	568,885	
Net profit for the period	-	-	-	-	-	-	(7,335)	(7,335)	
	<u>35,612</u>	<u>(4,988)</u>	<u>26,524</u>	<u>(4,667)</u>	<u>(2,192)</u>	<u>568,885</u>	<u>(328,984)</u>	<u>290,190</u>	
At 31st December, 2001	<u>35,612</u>	<u>(4,988)</u>	<u>26,524</u>	<u>(4,667)</u>	<u>(2,192)</u>	<u>568,885</u>	<u>(328,984)</u>	<u>290,190</u>	

10. WARRANTS

No 2004 Warrants were exercised during the period. Exercise in full of such warrants would result in the issue of approximately 114,926,182 additional ordinary shares of HK\$1.00 each.

11. PLEDGE OF ASSETS

At the balance sheet date, the Group pledged its time deposits amounting to approximately HK\$4,672,276 (30th June, 2001: HK\$5,131,501) to secure general banking facilities granted to the Group.

12. POST BALANCE SHEET EVENTS

Investment Properties

The investment property locate at 46/F., Far East Finance Centre, 16 Harcourt Road, Central, Hong Kong was sold in cash at HK\$65,000,000 on 28th January, 2002 making a loss of HK\$11,982,073 from sales.

Rights Issue

It was announced on 27th February, 2002 that, the Company proposed to raise approximately HK\$42 million, before expenses, by way of the Rights Issue of not less than 574,630,910 Rights Shares, on the basis of one Rights Share for every existing Share held by the Qualifying Shareholders on the Record Date, at the subscription price of HK\$0.073 per Rights Share payable in full on acceptance by the Qualifying Shareholders.

The net proceeds of the Rights Issue are expected to be about HK\$40.3 million: 50% is for the diversification of the Group's business into the processing and distribution of Chinese medicinal herbs, namely Lingzhi, and the remaining 50% will be used as general working capital for the Group.

The Directors believe that with the global increase in human awareness and the increasing popularity of Chinese health products, the business of manufacturing and distribution of Lingzhi has a good prospect and a promising outlook. The diversification of the Group's business as mentioned above will not result in a change in the Group's existing principal business. There are no proposals or agreements currently entered into by the Company in respect of such new business. Should the Company enter into any such agreement, the Company will ensure that it complies with relevant Listing Rules.

INTERIM DIVIDEND

The Directors do not recommend the payment of a dividend for the six months ended 31st December, 2001 (2000: Nil).

REVIEW OF OPERATIONS & PROSPECTS

The Group's turnover for the six months ended 31st December, 2001 was approximately HK\$75.3 million, representing a decrease of 12% from the turnover of approximately HK\$86.0 million of the same period last year. The administrative expenses for the six months ended 31st December 2001 were approximately HK\$13.2 million, representing a decrease of 35% from the expenses in the amount of approximately HK\$20.4 million incurred in the same period last year. During the six months ended 31st December 2001, the Company incurred a loss of approximately HK\$7.3 million while the loss incurred in the same period last year was HK\$1.3 million.

Electronic Products

During the period under review, the business of the subsidiary which is engaged in the manufacture of connectors used in personal computers continued to decline due to the slowdown of worldwide economies and slower sales of personal computers. The Company has diversified its product lines into other electronic products on OEM and ODM basis and have implemented cost control measures to reduce cost. With the gradual rebound of the economy in USA, an improvement in sales of the products is expected.

Chinese Herb and Bio-science Healthcare Products

The Group will diversify its business into the processing and distribution of Chinese herbal medicine such as Lingzhi, cordyceps, polygonum multiflorum thumb, nutritional health herbs and Bio-science healthcare products.

The factory which is located in Shenzhen, equipped with GMP setup, will be built to produce Chinese herbal medicine in about 9 to 12 months time.

R&D laboratory for testing the Bio-science products and minerals mixing of Bio-science compounds will be setup. We will sub-contract the bedding, linen and fibre etc manufacturing with Bio-science compounds added to produce full series of healthy sleeping system such as mattress pads and foam pillows.

The above products will be sold to a subsidiary of the holding company, Quorum Global Limited (“Quorum”), which carries out its business activities by means of multi-level marketing (MLM) worldwide except China. Quorum has over 8 years of experience in MLM industry.

The Group will conduct sales of these products in the form of Franchising distribution in China.

Traditional Chinese medicine (TCM) are widely recognised by many countries. Statistics shows there are 30–35% growth annually in the TCM industries in the past few years, the directors believe that this venture will further improve Group’s results in the near future.

EMPLOYEE INFORMATION

As at 31st December, 2001, the Group employed a total of 570 full-time employees. The Group’s emolument policies are formulated on the performance of individual employees and are reviewed annually. The Group also provides medical insurance coverage, and provident fund scheme (as the case may be) to its employees depending on the location of such employees.

DIRECTORS’ INTEREST IN CONTRACTS OF SIGNIFICANCE

Other than as disclosed above, no contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company or any of its subsidiaries had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN SECURITIES

As at 31st December, 2001, the interests of directors of the Company in the shares and warrants of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:-

Shares & Warrants

Name of Directors	Number of shares held Corporate interests (Note)	Number of warrants held Corporate interests (Note)
Hung Wong Kar Gee Mimi	319,190,517	59,202,503
Hung Kin Sang Raymond	319,190,517	59,202,503

Note: 311,381,583 shares and 58,702,517 warrants were held by Batimate Limited, and 559 shares and 111 warrants were held by Applied Electronics Limited respectively, both of which are wholly-owned subsidiaries of Applied International Holdings Limited ("Applied Holdings"), a company listed on the Hong Kong Stock Exchange. The remaining 7,808,375 shares and 499,875 warrants were held by Applied Holdings and Applied Holdings is controlled by Capita Company Inc., a company 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 Raymond Hung / Mimi Hung.

Save as disclosed herein and other than certain nominee shares in the subsidiaries held in trust for the Company, none of the directors, chief executives or their associates had any interests in the share capital of the Company or any of its associated corporations, as defined in the SDI Ordinance.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2001, according to the register required to be kept under section 16(1) of the SDI Ordinance, the shareholder who was interested in 10% or more of the share capital of the Company was as follows:-

Shareholder	Number of shares held
Batimate Limited	311,381,583

Save as disclosed herein, no other person is recorded in the register kept pursuant to section 16(1) of the SDI Ordinance as having an interest of 10% or more in the issued share capital of the Company.

LIQUIDITY AND FINANCIAL INFORMATION

At as 31st December, 2001, the Group's total borrowings amounted to approximately HK\$110,525,000 with approximately HK\$65,386,000 repayable within one year. Cash, bank balances and deposits at 31st December, 2001 amounted to approximately HK\$7,677,000. The Group's current ratio was 0.69 and the gearing ratio which is expressed as a ratio of total bank liabilities to total assets was 0.25. The property located at 46/F., Far East Finance Centre, 16 Harcourt Road, Central, Hong Kong was disposed on 28th January, 2002 for a cash of HK\$65,000,000. As a result, the bank liabilities will be reduced and the liquidity of the Company will be improved.

The Group had no significant exposure to foreign exchange fluctuation.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 31st December, 2001.

AUDIT COMMITTEE

The Company has setup an audit committee with written term of reference since December 1999 which comprises two independent non-executive directors of the Company. The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters, including the review of the unaudited condensed interim financial statements.

CODE OF BEST PRACTICE

None of the Directors of the Company is aware of information that would reasonably indicate that the Company is not in compliance with the code of Best Practice set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited except that non-executive Directors are not appointed for a specific term because they are subject to rotation in Annual General Meetings in accordance with the Articles of Association of the Company.

On behalf of the Board
Mimi Kar Gee Wong Hung
Chairman

Hong Kong, 25th March, 2002