



Applied International Holdings 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 International Holdings 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	111,032	129,284
Cost of sales		<u>(94,401)</u>	<u>(108,906)</u>
Gross profit		16,631	20,378
Other revenue		–	269
Distribution cost		(2,138)	(2,915)
Administrative expenses		(24,318)	(33,449)
Investment income		–	9,083
Interest income		74	4,536
Loss on disposal of investment properties		<u>(410)</u>	<u>(514)</u>
Loss from operations		(10,161)	(2,612)
Finance costs		(2,995)	(7,258)
(Loss)/Gain on disposal of subsidiaries		(49)	15
Gain on repurchases of convertible bonds		–	276
Goodwill arising on acquisition of subsidiary		<u>54</u>	<u>–</u>
Loss before minority interests		(13,151)	(9,579)
Minority interests		<u>(2,691)</u>	<u>293</u>
Loss for the period	3	<u>(10,460)</u>	<u>(9,872)</u>
Loss per share	4		
– Basic		<u>(1.11 cents)</u>	<u>(1.05 cents)</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	279,015	238,297
Property, plant and equipment		325,471	352,486
Other securities		11,621	12,127
Other investments		66,978	63,488
		<u>683,085</u>	<u>666,398</u>
Current Assets			
Inventories		13,000	14,516
Trade and other receivables	6	67,118	75,487
Short-term loans receivable		6,965	3,096
Tax recoverable		-	43
Pledged bank deposits		4,672	21,433
Other bank deposits		-	1,902
Bank balances and cash		11,273	5,547
		<u>103,028</u>	<u>122,024</u>
Current Liabilities			
Trade and other payables	7	61,934	69,730
Tax liabilities		6,160	6,168
Bank borrowings – due within one year		70,058	40,554
Other borrowings – secured		2,531	21
Obligations under finance leases – due within one year		3,431	2,351
		<u>144,114</u>	<u>118,824</u>
Net current (liabilities)/assets		<u>(41,086)</u>	<u>3,200</u>
		<u>641,999</u>	<u>669,598</u>



CONDENSED CONSOLIDATED BALANCE SHEET (continued) AT 31ST DECEMBER, 2001

	NOTES	31/12/01 (Unaudited) HK\$'000	31/12/00 (Unaudited) HK\$'000
Capital and Reserves			
Share capital	8	188,216	188,216
Treasury shares		(12,546)	(12,546)
Reserves	9	193,788	227,506
		<u>369,458</u>	<u>403,176</u>
Minority interests		<u>221,465</u>	<u>246,188</u>
Non-current Liabilities			
Amount due to a minority shareholder		1,069	1,890
Bank borrowings – due after one year		47,552	16,256
Deferred taxation		664	478
Obligations under finance leases – due after one year		1,791	1,610
		<u>51,076</u>	<u>20,234</u>
		<u><u>641,999</u></u>	<u><u>669,598</u></u>



CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES FOR THE SIX MONTHS ENDED 31ST DECEMBER, 2001

	31/12/01 (Unaudited) HK\$'000	31/12/00 (Unaudited) HK\$'000
(Deficit) Surplus on revaluation of investment properties	(12,800)	136
Unrealised holding loss on revaluation of other securities	—	(11,184)
Net loss not recognised in the income statement	(12,800)	(11,048)
Net loss for the period	(10,460)	(9,872)
Total recognised losses	(23,260)	(20,920)
Elimination against reserves of goodwill arising on acquisition of subsidiaries	—	(38)
Capital reserve arising on acquisition additional interest in a subsidiary	215	—
	<u>(23,045)</u>	<u>(20,958)</u>



CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE SIX MONTHS ENDED 31ST DECEMBER, 2001

	31/12/01 HK\$'000	31/12/00 HK\$'000
Net cash outflow from operating activities	(1,459)	(17,215)
Net cash outflow from returns on investments and servicing of finance	(2,921)	(1,605)
Net cash (outflow) inflow from investing activities	<u>(64,599)</u>	<u>17,061</u>
Net cash outflow before financing	(68,979)	(1,759)
Net cash inflow (outflow) from financing	<u>54,472</u>	<u>(117,371)</u>
Decrease in cash and cash equivalents	(14,507)	(119,130)
Cash and cash equivalents at beginning of the period	<u>(2,315)</u>	<u>107,108</u>
Cash and cash equivalents at end of the period	<u><u>(16,822)</u></u>	<u><u>(12,022)</u></u>



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 ended 31st December		For the six months ended 31st December	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
By principal activity:				
Trading and manufacture of:				
Electronic products	105,437	122,049	2,978	4,464
Rental income	5,595	7,235	2,434	6,692
	<u>111,032</u>	<u>129,284</u>	5,412	11,156
Interest income			74	4,536
Other income			-	9,352
Other expenses			(15,647)	(27,656)
Loss from operations			<u>(10,161)</u>	<u>(2,612)</u>
By geographical area:				
Hong Kong	87,456	89,010		
Mainland China	4,359	5,235		
Other Asian countries	1,636	6,449		
Europe	6,286	23,506		
United States of America	11,295	5,084		
	<u>111,032</u>	<u>129,284</u>		



3. LOSS FOR THE PERIOD

Of the Group's loss for the period, a loss of HK\$10,460,000 (2000: loss of HK\$9,872,000) 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\$10,460,000 (2000: loss of HK\$9,872,000) and on the weighted average of 941,080,745 (2000: 941,080,745) shares in issue during the period.

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	233,436
Additions	61,655
Disposal	(3,276)
Deficit on revaluation	<u>(12,800)</u>
At 31st December, 2001	<u>279,015</u>
NET BOOK VALUES	
At 31st December, 2001	<u>279,015</u>
As at 30th June, 2001	<u>233,436</u>



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
Held in Hong Kong:	
Long-term leases	207,455
Medium-term leases	3,900
Held outside Hong Kong:	
Medium-term leases	63,800
Freehold	3,860
	<u>279,015</u>

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	18,876	14,734
Overdue under 30 days	17,359	13,347
Overdue 31-60 days	13,094	11,638
Overdue over 60 days	17,789	35,768
	<u>67,118</u>	<u>75,487</u>



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	14,056	3,446
Overdue under 30 days	13,523	7,776
Overdue 31-60 days	14,047	5,829
Overdue over 60 days	20,308	52,679
	<u>61,934</u>	<u>69,730</u>

8. SHARE CAPITAL

	Number of Ordinary shares	Amount (HK\$'000)
Ordinary shares of HK\$0.20 each		
Authorised:		
At 31st December, 2001	<u>2,000,000,000</u>	<u>400,000</u>
Issued and fully paid:		
At 31st December, 2001	<u>941,080,745</u>	<u>188,216</u>



9 RESERVES

	Shares premium account HK\$'000	Investment revaluation reserve HK\$'000	Investment property revaluation reserve HK\$'000	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Contributed surplus HK\$'000	Distributable reserve HK\$'000	Translation reserve HK\$'000	Deficit HK\$'000	Total HK\$'000
At 1st July, 2001	3	(12,201)	21,238	10,892	220,414	-	93,961	(2,975)	(114,571)	216,761
Eliminated on disposal of investment properties	-	-	72	-	-	-	-	-	-	72
Capital reserve arising on acquisition of additional interest in subsidiary	-	-	-	-	215	-	-	-	-	215
Deficit on revaluation of investment properties	-	-	(12,800)	-	-	-	-	-	-	(12,800)
Net loss for the period	-	-	-	-	-	-	-	-	(10,460)	(10,460)
At 31st December, 2001	<u>3</u>	<u>(12,201)</u>	<u>8,510</u>	<u>10,892</u>	<u>220,629</u>	<u>-</u>	<u>93,961</u>	<u>(2,975)</u>	<u>(125,031)</u>	<u>193,788</u>

10. WARRANTS

No 2004 Warrants were exercised during the period. Exercise in full of such warrants would result in the issue of approximately 189,334,000 additional ordinary shares of HK\$0.48 each.

11. PLEDGE OF ASSETS

At the balance sheet date, the Group pledged its time deposits amounting to approximately HK\$4,672,000 (30th June, 2001: HK\$4,989,000) to secure general banking facilities granted to the Group.



RESULTS

The Directors of the Company announces that the audited consolidated loss attributable to shareholders of the Group for the six months ended 31st December, 2001 amounted to approximately HK\$10,460,000, comparing to last year's loss of approximately HK\$9,872,000. Turnover for the six months ended 31st December, 2001 was approximately HK\$111,032,000 compared to the turnover of approximately HK\$129,284,000 in last year, representing a decrease of 14%.

INTERIM DIVIDEND

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

REVIEW OF OPERATION AND PROSPECTS

OEM Business

With the introduction of various measures to operate the factory more efficiently and cost effectively, our OEM manufacturer that produces computer boards, VGA cards, modem cards and sound cards have improved its profitability.

Applied (China) Limited

The Group held approximately 55.55% of the issued share capital of Applied (China) Limited (the "ACL"). ACL shares are also listed on The Stock Exchange of Hong Kong Ltd. (the "SEHK"). The principal activities of ACL are manufacturing and marketing of consumer electronic products on OEM basis.

ACL 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.

ACL will conduct sales of Chinese herb and Bio-science healthcare 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.

Multi-level Marketing (MLM)

Our Group will re-start the MLM business through our subsidiary Quorum Global Limited. Sales office only will be setup in USA and Australia to conduct and promote multilevel marketing business. Back-up office for order entry, customer services, technical support, MIS, Accounting, warehousing, International despatch and logistic centres will be located in Shenzhen, China to reduce our costs of operations.

Product lines for MLM include Traditional Chinese medicine (TCM) and Bio-science products, healthcare electronics, skincare products and air purifier series. TCM and Bio-science products will be bought from Applied (China) Limited at competitive prices and other products will be sourced from outside suppliers. Top management for Quorum have already been recruited and distributors are ready to roll-in.

We have made a lot of mistakes and learn during our previous 8 years of MLM experience, our Group will take prudent step to expand our worldwide sales network.



PROPERTIES INTEREST

The People's Republic of China

(a) *Dan Shui*

One of the largest sino-foreign joint venture ("Joint Venture") with a value of US\$4 billion in China between the multinational petrochemical giant Royal Dutch Shell Group and China National Offshore Oil Corp on 28th October, 2000 to build a petrochemicals complex for the production of high quality petrochemicals products in Huizhou, Guangdong is expected to bring in a lot of opportunities to the surrounding areas including the large piece of land (the "Dan Shui Land") owned by our group in the centre of Dan Shui. A large number of local and overseas investors with investment of over HK\$300 billion will set up entered into various down streams industries in the area. This major investment is expected to enhance the development of construction, business, finance, hotel, recreation and service industries in Dan Shui and increase its working population by 1 million people.

Our Group has a land bank of approximately 730,000 sq.m. in Central Dan Shui approximately 15 minutes away by car from the site of the Joint Venture which has been recently zoned by the state government for residential and commercial usages to support the growth in population in the area as a result of the Joint Venture. After the signing of the relevant joint venture agreement in Dan Shui, the value of the properties in the area has increased. The directors of the Company (the "Directors") believe the demand for land in the area will continue to increase in the future.

(b) *Jiangmen*

The Group has submitted a plan to develop the 1 million sq. ft. of land owned by the Group, which is located near a train station and highway, to the relevant authority for approval. The Group understands that the plan is still under consideration by the relevant authority. The Group will commence to sell land lots after approval is obtained. We do not intend to develop the land ourself.



Overseas

Beef Island

The airport on Beef Island is expected to be expanded to enable direct flights from New York, Florida and other major cities in the United States and such expansion is tentatively to be completed on or before December 2002. Recently, the Group has received enquiries regarding possible sale of the Group's land in the area, formation of joint ventures, building of a golf course, a hotel and marina city. The Group expect that the value of the land will be increased substantially in view of the potential developments in the area in the near future.

EMPLOYEE INFORMATION

As at 31st December, 2001, the Group employed a total of 1,100 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

At 31st December, 2001, the interests of the Directors and their associates in the securities of and in any rights to subscribe for securities of the Company and any associated corporation as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") or as notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

(1) Shares & Warrants

(A) The Company

Name of Directors	Number of ordinary shares held		Number of warrants held	
	Personal interests	Corporate interests (Note 1)	Personal interests	Corporate interests (Note 1)
Hung Kin Sang Raymond	3,280,000	453,984,584	560,000	90,796,916
Hung Wong Kar Gee Mimi	8,870,056	453,984,584	1,774,011	90,796,916
Fang Chin Ping	100,000	-	20,000	-
Soo Hung Leung Lincoln	1,100,000	-	220,000	-

(B) Subsidiary Company – Applied (China) Limited

Name of Directors	Number of ordinary shares held		Number of warrants held	
	Personal interests	Corporate interests (Note 2)	Personal interests	Corporate interests (Note 2)
Hung Kin Sang Raymond		319,190,517		59,202,503
Hung Wong Kar Gee Mimi		319,190,517		59,202,503



DIRECTORS' INTERESTS IN SECURITIES (continued)

Note:

1. These shares 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
Applied (China) Limited	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.

2. 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 and other than certain nominee shares in the subsidiaries held in trust for the Group by certain directors at 31st December 2000, none of the directors or their associates had any personal interests, family interests, corporate interests or other interests in the securities or its associated corporations as defined in the SDI Ordinance.



DIRECTORS' INTERESTS IN SECURITIES (continued)

(2) Share Options

Name of Directors	Unexercised Options at 31st December, 2001	Exercise price per share HK\$
Hung Kin Sang Raymond	8,400,000 <i>(note)</i>	0.36
Hung Wong Kar Gee Mimi	7,000,000 <i>(note)</i>	0.36

Note:

As a result of the rights issue of the Company which took place 24th September, 1997, the exercise price of the option of HK\$0.51 per share was adjusted to HK\$0.36 per share. The number of options were adjusted accordingly.

The outstanding share options can be exercised 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 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 debentures of, the Company or any other body corporate. None of the directors or their spouses or children under the age of 18 had any right to subscribe for securities of the Company or had exercised any such right during the year.

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed under the heading "DIRECTORS INTERESTS IN SECURITIES" above in respect of certain Directors, the register of substantial shareholders kept by the Company under Section 16 (1) of the SDI Ordinance discloses no person as having an interest in 10% or more of the issued share capital of the Company as at 31st December, 2001.



LIQUIDITY AND FINANCIAL INFORMATION

At as 31st December, 2001, the Group's total borrowings amounted to approximately HK\$125,363,000 with approximately HK\$76,020,000 repayable within one year. Cash, bank balances and deposits at 31st December, 2001 amounted to approximately HK\$15,945,000. The Group's current ratio was 0.71 and the gearing ratio which is expressed as a ratio of total bank liabilities to total assets was 0.16. The property owned by ACL 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 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

No Director is aware of information which would reasonably indicate that the Company was not in compliance with the Code of Best Practice, as set out in Appendix 14 to the Listing Rules at any time during the six months ended 31st December, 2001.

On behalf of the Board
Hung Kin Sang Raymond
Chairman

Hong Kong, 25th March, 2002