



During the period under review, Applied (China) Limited (the "Company", together with its subsidiaries collectively referred to as the "Group") embarked on a new strategic direction. Since the Group's businesses are rooted on the Mainland China, based on taking advantage of its sustained economic growth and its increase of elderly population, our strategy has set us on a course towards the rapid and substantial growth of the healthcare products market in China. The Group successfully carried out a niche in the development, manufacture and distribution of nano-tech and bio-tech consumer products with tremendous potential.

## **Dividend**

The Directors do not recommend the payment of a dividend for the year ended 30th June, 2002 (2001: Nil).

## **Review of operation and prospects**

The Group's turnover for the year ended 30th June, 2002 was approximately HK\$119 million, which represented a decrease of 12.5% compared to previous year. The administrative expenses for the year ended 30th June, 2002 were approximately HK\$32.8 million, which represented an decrease of 39% from the expenses which was incurred last year.

The audited consolidated loss for the year was approximately HK\$33.2 million (2001: HK\$28.5 million) which included arrangement fees of HK\$2.3 million in respect of the Group restructuring and a loss of HK\$13.3 million on disposal of an investment property. Besides, the consolidated income statement also recorded an impairment loss recognised in respect of property, plant and equipment of HK\$4.1 million and an allowance for short term loan receivable of HK\$3.1 million.

Other losses incurred for the year were mainly spent on diversification of business into the manufacture and marketing of Chinese herbal supplements and biowave-activated healthcare products. These included the setting up of a manufacturing factory in Shenzhen and recruitment of Chinese herbal and bio-science expert staff. The factory is expected to commence production within six months time.

During the year, the Directors have also established a strong research and development team to develop new products and strategic opportunity for the business.

## **Chinese herbal and nano-tech products**

In addition to supplying electronic equipment to leading names, the Group is now producing an extensive range of Chinese herbal supplements such as Lingzhi, codyceps, polygonum multiflorum thumb, nutritional health herbs and nano-tech healthcare products. To support our mission of manufacture products of a high and stringent western medical standards, the Group has entered into joint venture arrangement with the Chinese partners to construct nano and herbal manufacturing plants in Shenzhen, China, which conform to the stringent and international pharmaceutical standards set by the World Health Organisation's Good Manufacturing Practice (GMP) and ISO 9000.



## Chairman's Statement

### Products introduction:

In today's health-conscious world, the Group is dedicated to developing a series of high-standard health products, which are researched and manufactured to stringent international standards to ensure their safety, efficacy and quality. Nano-tech healthcare product – is one of the fastest growing industry and is referred to as a trillion US industry by major US news network. Bio-tech health product includes a range of Chinese traditional herbal base health products such as Lingzhi essence. A leading US magazine ran it as its cover story.

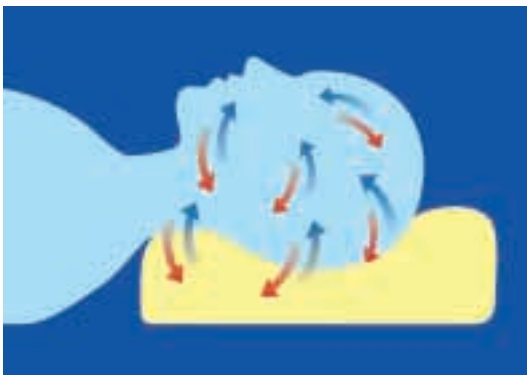
### 3 Commitments to products

- Safety : All products undergo heavy metal and microbial testing.
- Efficacy : Products that work for you.
- Quality : Western scientific and Chinese medicine research approaches are combined to ensure a superior health supplement is provided to customers. Testing measures such as HPLC ensure a standardized product.

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.

### NanoPro series

We are nano-technology-focused and all fabric for our "NanoPro" series are pre-treated with the nano-activated ultra-fine powder, then woven into nano-activated fabric, which have been proven by various research and clinical testing reports as being able to improve blood micro-circulation in human body. Tested by using medical equipment, the biowaves emitted by the human body fluctuate between 3-45 um. However, between 4-20 um spectrum can be reflected back into the body by nano-activated fabric. This is something that normal fabric cannot do.



- Improve blood micro-circulation.
- Better Metabolism.
- Activates and stimulates cell production.

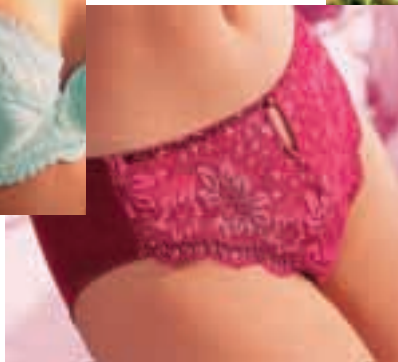
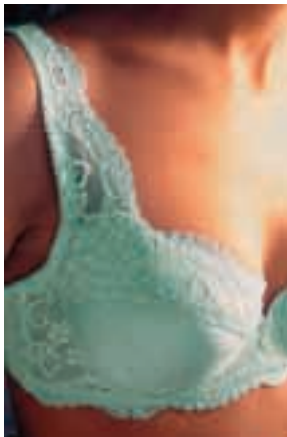


## Enhancing existing products and develop new NanoPro products

In the health-conscious era of the '02s, the Group has continuously placed great emphasis on improving the quality and effectiveness of its existing products.

With the rapid economic growth in the PRC in the early 1990s, the growth of the healthcare products industry has accelerated. Based on the research report issued in April 2002 by the China Healthcare Science and Technology Association, the total production value of the healthcare products market is estimated to have increased from approximately RMB15 billion in 1996 to approximately RMB30 billion in 2002, representing an average annual compound growth rate of approximately 14.9%.

Taking into account the overall potential growth of the healthcare products market in the PRC, the Company has scheduled to launch a new lines of personal and skin care products with electronic activators and other NanoPro series products such as nano sleeping series, blankets, Bio-wave vitality bras, undergarments, Bio-wave meridian socks to the market upon completion of comprehensive clinical tests.





## Chairman's Statement

### BioQx series

Harnessing nature and blending with science to create exceptionally pure products.

The range of BioQx products takes tried and trusted ancient herbal remedies and formulate them to the highest modern western nutraceutical standards. The end result is a range of exceptionally pure and efficacious health supplements that are ideal for people of all ages.



The range of popular BioQx products already selling steadily in many markets includes Royal Qi, Lingzhi Peptide, Nutri Potent, Nutri Beauti, Lingzhi Essence to enhance health, plus a range of health supplements – Cell-U-Clear, Toxiclear which have been formulated to reduce fat, increase energy and enhance the complexion.



The Group is leading the way in establishing strict manufacture and health and safety standards to ensure the efficacy and quality of its BioQx products. Microbial tests, chemical, toxin and heavy metal analyses are carried out for all products after exhaustive initial safety assessments. The end result is a range of health-enhancing products that are totally in tune with needs of health-conscious people the whole world over.



## Research and development

We have invested in people management, Nano and Bio technologies, and have recruited a number of scientists in the PRC jointly with other research institution.

Powered by a management team of experienced and talented people, the Group is striving down the path, pioneering to be the leading gateway for independent distributors to advocate the most advanced technology and create successful showcases.

The Directors believe that strong research and development capabilities play an important role in the Group's success. In order to strengthen the Group's R & D, the Group has continued to look for opportunities to form strategic alliances with academic and renowned scientific institutions.

## Development of China franchising

Franchising is one of the most powerful and profitable business medium in the world today. The Group intends to establish the franchise distribution network within the PRC. Its affiliated company, Quorum Global Limited (the "Quorum Global") offers third party the opportunity to have their own Quorum Global franchise store in China. In addition, as part of the Group's product development plan, the Directors intend to enhance the Group's brand name NanoPro, BioQx and NanoBeaute through a series of promotional campaigns.

## Electronic products

During the year, 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.

## Investment properties

For the year ended 30th June, 2002, the Group's rental properties contributed revenues of HK\$7.2 million (2001: HK\$8.8 million). In September 2001, the Group acquired Unit A and B on 1st Floor, Unit B on 2nd and 3rd Floor together with the roof thereof, the whole of Garden A and B appertaining thereto and Car Parking Spaces Nos. 1, 2, 3, 4, 5 and 7, Severn Villa, No. 3 Severn Road, the Peak, Hong Kong at approximately HK\$61 million. The properties are residential premises with approximate, gross area of 7,750 square feet and these will generate a reasonable return for the Group after redecoration.

The investment property located at 46/F., Far East Finance Centre, 16 Harcourt Road, Central, Hong Kong was disposed for a cash consideration of HK\$65,000,000 on 28th January, 2002 and a loss of HK\$13,301,590 from sales was recorded by the Company for such sales.



## Chairman's Statement

### Redomicile

During the period under review, by way of a Scheme of Arrangement (the "Scheme") and a related warrant proposal, iQuorum Cybernet Limited (the "iQuorum") became a wholly owned subsidiary of the Company, an exempted company incorporated in Bermuda with limited liability under the Companies Act 1981 of Bermuda. The Scheme was sanctioned by the High Court of Hong Kong Special Administration Region on 19th December, 2001. Consequently, the listing of iQuorum's shares and its warrants on the Stock Exchange was then withdrawn effective from the close of business on 19th December, 2001 and dealings in the Company's shares and its warrants on the Stock Exchange commenced on 20th December, 2001.

Under the Scheme, trading in iQuorum's shares in board lots of 2,000 shares each and its warrants in board lots of 24,000 warrants each was then removed. From 30th January, 2002, trading in the Company's shares and its warrants is now both in board lots of 10,000 each.

The Group believes that it is in the best interests of the Company and the shareholders of the Company as a whole that the holding company of the Group be established in an offshore jurisdiction familiar to international investors with a view to enhancing the international standing of the Group. The revised group structure, with a new holding company in Bermuda, allows the Group greater flexibility in formulating any future expansion plans which, if appropriate, may be carried out overseas subsidiaries of the new holding company, in particular, with China entering the W.T.O., the Group plans to represent more overseas subsidiaries for export of products into the China market.

Bermuda has been chosen as the place of incorporation of the Group's holding company in view of its political stability, its common law legal system and its importance as an international centre with a large number of international companies incorporated there.

### Rights issue of shares

In April 2002, the Company raised funds of approximately HK\$42 million by way of rights issue of 574,630,910 rights shares, on the basis of one right share for every existing share of the Company held by shareholders, at the subscription price of HK\$0.073 per rights share. The net proceeds of the rights issue are used for the diversification of the Company's business into the manufacture and distribution of Chinese herbal supplements and biowave-activated healthcare products and as general working capital for the Company.

### Liquidity and financial information

As at 30th June, 2002, the Group's total borrowings amounted to approximately HK\$91,108,000 with approximately HK\$56,225,000 repayable within one year, approximately HK\$3,077,000 repayable between one to two years, approximately HK\$8,314,000 repayable between two to five years and approximately HK\$23,492,000 repayable after five years. Bank balances and deposits at 30th June, 2002 amounted to approximately HK\$74,525,000. The Group's current ratio was 1.73 and the gearing ratio which is expressed as a ratio of total liabilities and minority interests to shareholders' funds was 0.21. Bank balances and cash and deposits were held in Hong Kong dollars.

The Group had no significant exposure to foreign exchange fluctuation.



## **Employee information**

As at 30 June 2002, the Group employed a total of 450 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.

## **Appreciation**

The Directors would like to express their sincere appreciation for all the dedicated efforts of all the management and staff of the Group during the year.

By order of the Board

**Hung Wong Kar Gee, Mimi**  
*Chairman*

Hong Kong, 25th October, 2002