

During the period under review, Applied International Holdings Limited (the "Company", together with its subsidiaries collectively referred to as the "Group") embarked on a new strategic direction. Based on an innovative approach to marketing and distribution of a series of consumer products, our strategy has set us on a course towards rapid and substantial growth. The Group successfully carved out a niche in Nano- and Bio- technology industry with tremendous potential.

DIVIDEND

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

REVIEW OF OPERATIONS & PROSPECTS

The audited consolidated loss attributable to shareholders of the Group for the year ended 30th June, 2002 amounted to approximately HK\$27,917,000 (2001: HK\$23,495,000), which includes the loss of approximately HK\$20,072,000 (2001: 15,807,000) attributed by Applied (China) Ltd., a company which shares are listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange"). Turnover for the year ended 30th June, 2002 was approximately HK\$191,895,000 compared to the turnover of approximately HK\$210,800,000 in last year, representing a decrease of 9.0%. The gross profit margin maintained at approximately 20% as compared to the corresponding period last year. The distribution, administrative and financing expenses for the year ended amounted to approximately HK\$69 million, which represented a decrease of 23% from the expenses incurred in the preceding year.

The significant loss for the year ended was attributable to the setting up of sales offices in Australia and the United States respectively to conduct and promote network marketing business. The substantial set-up costs associated with the entry into these markets and the introduction of a range of powerful computer programs, softwares and equipments, in particular, the most efficient and innovative systems for accounting and customer database management as well as order processing have contributed to the increase in expenditure and thus loss for the period under review. To coincide with its expansion towards overseas markets, the Group's results were also affected by the essential expenses incurred in the research, development and enrichment of the Group's products portfolio. Besides, additional costs arose further from the Group's engagement of extra financial resources in the recruitment of top executives, middle management executives and supporting staff to support and maintain its business operation. There was another non-recurrent loss of HK\$9.4 million on the disposal of an investment property owned by its majority-owned subsidiary.

Segment review

Due to the more competitive business environment of the electronics manufacturing industry, the turnover of this year dropped by around 8%, but we managed to maintain its contribution to our Group. Also, the negative results of property and investment holding were able to be controlled at a slight increase of around 3%. This year, our Group managed to increase our sales to the United States of America, despite a worse situation in Europe and other Asian countries. Our management will strive hard to grasp every opportunity to upkeep our market position in the respective business regions concerned.

Network Marketing Business

The Group has a 100% interest in the Quorum Global entities ("Quorum Global"), which are principally engaged in the multi-level distribution of a range of "Nano-tech" and "Bio-tech" consumer products under its own brand name, through network marketing in the United States and Australia. Network marketing is a direct sale of products through appointed distributors to end customers, eliminating traditional retailers and other intermediaries in the distribution chain and thus enabling end consumers to make purchase at a more competitive price. In addition, the difference between the wholesale and the retail price is retained by the individual distributors. This mechanism gives the distributors strong incentive to generate business for the corporation.

The phenomenal growth and recognition of network marketing organisations as being a global trend industry are reconfirmed in a recent Direct Selling Association survey which reflected that sales in the U.S. have doubled in the last decade to more than HK\$23 billion and are now more than HK\$80 billion worldwide. The Direct Selling Association also estimates there are 34 million network marketers worldwide. "The Wall Street Journal" recently reported that in the coming years fully 50% to 60% of all goods and services will be sold through network marketing methods.

To coincide with today's health-conscious world, Quorum Global introduces a wide range of health enhancing Nano-tech (namely "NanoPro" – unique bedding and undergarment series) and Bio-tech (namely "BioQx" – formulated herbal supplement series) products which are researched and manufactured to stringent international standards to ensure their safety, efficacy and quality. Rigorous tests carried out at Quorum Global's state-of-art laboratories include heavy metal analysis, chemical toxin and microbial detection.

By blending the best elements of traditional and modern technology in the East and the West, Quorum Global products provide the ideal antidote to the stresses and strains of modern life. Quorum Global adopts leading edge nanotechnology in developing healthcare products that enhance the human body's own ability to care for, and heal itself. Its biowave-activated products:

- Help stimulate the 365 acupuncture points on the body; and
- Help improve blood microcirculation through thermal and resonance effect.

Thus, they result in:

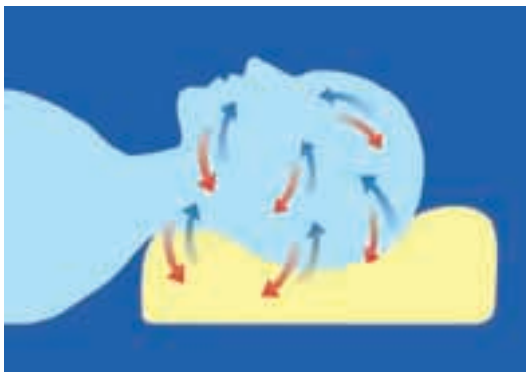
- Optimizing the natural energy levels in the human body via biowave;
- Increasing efficiency of supplying nutrients to each cell;
- Helping the human body to more efficiently flush out toxins; and
- Providing much needed protection against a variety of ailments.



The majority of the debilitating illnesses humanity has suffered and is suffering from have been the result of nothing more sinister than poor circulation, particulars of which are as follows:

1. Human bodies' blood vessels become clogged with pollutants, the bodies' systems fail to rid themselves of toxins and poison that are a breeding ground for disease.
2. The lesser care human beings take of themselves and their bodies, the poorer their circulation becomes and the more difficulty their immune systems have in solving the problem.

Using medical equipment, the biowaves emitted by the human body fluctuate between 3 and 45 μm . However, between 4 and 20 μm spectrum of biowaves can be reflected back into the body by resonant absorption generated by biowave-activated fabric as the biowaves emitted by the body and the wave spectrum of the fabric are congruent. This energy recycling and reutilization is something that normal fabric cannot do.



The biowave activated fibre in Quorum Global "NanoPro" product line:

1. Uses the most advanced scientific technology and manufacturing techniques currently available.
2. Incorporates biofunctional ceramics produced at very high temperatures. The ceramics are then disintegrated into superfine particles smaller than a single bacterium at an intense pressure of 2,800 atmospheres. The resultant superfine particles are then interlaced together and spun into fibers which are woven into biowave-activated bedding and undergarment products.





In addition, Quorum Global's state-of-the-art formulated herbal supplements are specially manufactured to contain concentrate of the most nourishing extract in herbs for easy absorption, and to manufacture to the highest western nutraceutical standards.

Traditional Chinese herbs have a long history, with therapeutic roots extending back to 3,000 years ago. Its theory is completely different from western medical theory in that it emphasizes on the importance of achieving balance of the whole body. Chinese herbs are a particularly potent means of re-establishing and maintaining the body's natural resistance, flexibility and

endurance. Although modern western medicine is well developed, traditional Chinese herbs continues to increase its popularity around the globe, due to its efficacy and lack of side effects.



Nowadays, the nourishment and enhancement of health as well as promotion of longevity of life dominate all aspects of modern life. Being an active participant in the most advanced technology, the Group in response to trends in health conscious concept, new discoveries and distribution (networking), is dedicated to introduce a wide spectrum of high quality and innovative wellness products through Quorum Global. Nanotechnology, a major US news network described it as "A Trillion US Industry". The nanotechnology platform can be applied to a wide variety of fabric types to create multiple performance features. Quorum Global gears up new opportunities in the marketplace with differentiated products based on the cutting edge nanotechnology. With the help of a panel of doctors and experts in Chinese herbal supplements, Quorum Global has used the wisdom of ancient and centuries' old Eastern prescriptions in modern formulations to give the customers the best in Chinese herbal supplements and has a fully developed line of products for all ages and for all lifestyles as well.

In line with the expansion plans and diversification into new products, the Group plans to strengthen its research and development team or to collaborate with other research institutions. The Directors believe that to enrich the products portfolio will bring another major sales performers and contribute further to the momentum of the Quorum Global operations. The potential for future growth is phenomenal.

The Board of Directors (the "Directors") recognize that in network marketing the relationship with distributors is of paramount importance and is the key success factor. Network marketing requires the recognition of cultures and lifestyle as well as close communication with the people involved in the business.

The Group has committed to set aside a little piece of land in Beef Island in the British Virgin Islands as to provide venue for conference meeting, recreational function, and for promoting the well-being of the top distributors and to provide an opportunity to promote relationships among top distributors.

Our Network Marketing Experience

The implementation of network-marketing concept – selling products through multi-level distribution had been very successful in providing a unique advantage when Quorum International Ltd. ("Quorum") began in 1991. In the past, Quorum had ranked among the market leaders in terms of growth in sales and in its distribution network. The Quorum network had been extended to the United States, United Kingdom, Germany, Netherlands, France, Belgium, Asia Pacific region and China and had over 300,000 distributors. It reached USD20 million in monthly sales within 1 and 1/2 year of operation and had been recruiting average 1,500 distributors worldwide each day after the service was launched.



In the past, Quorum was primarily engaged in the distribution of electronic security products, which are durable in nature. However, there was a limited demand for replenishment and repeated purchases of these items in the product line. Nowadays, the management team of Quorum Global has accordingly taken proactive measures to launch consumable Chinese herbal products, which can result in multiple and repeated purchases by consumers, thus increasing the Group's recurring income.

For more than two decades, the Group has always been developing and marketing the most high-tech products. I, Raymond Hung, Executive Chairman of Quorum Global have over a half-century of business experience. Being an award recipient of the 1994 Arizona Entrepreneur of the Year (EOY) program, I have been featured in such magazines as Forbes, Inc, Fortunes, Success, Business Age and The Wall Street Transcript.

Robert Crisp, President of Marketing and Sales of Quorum Global, is a 27-year veteran of the network marketing industry. Robert is a globally recognized authority on business training, and the author of several best selling books on leadership development. In a career spanning three decades, he has helped to build and lead two organizations of more than 200,000 distributors.

Armed with past experience acquired from Quorum operations and a management team of experienced and sophisticated people, the Directors are optimistic about the prospect of network marketing. We will however exert utmost prudence in controlling the pace of expansion.

International Expansion

In the near future, Quorum Global network is planning expansion into new markets in Europe and Asia Pacific region. The network has already been extended to Australia in September 2002, with the United States to follow by December 2002. In addition, the Group is also exploring opportunities to expand its business into China, in which franchise distribution network will be adopted. The Directors choose to enter the China markets due to the immense opportunity in this fragmented, highly competitive country with large existing revenue streams waiting to be tapped, in particular, following its accession to the World Trade Organization (WTO). In fact, the world-largest population, the rapid economic development, the emergence of an increasing number of affluent people and abundant resources have made China a new and undeniably tremendous potential market that no one dares to overlook. Substantial work has been carried out in structuring its operational flows, and the relevant products are currently being sought for the Chinese authorities' approval.

Other potential markets under consideration by means of network marketing distribution include EEC countries, France, Germany, Hong Kong, Hungary, Italy, Japan, Mexico, Poland, Scandinavia, Spain and the United Kingdom.

OEM Business

The Group's OEM manufacturing company, supported by a stable customer base, has generated steady income over the period under review although the business is suffering from sluggish market conditions and adverse economic environment. As such, in order to maintain its competitiveness in the market, the Group has implemented a series of proactive measures with an aim to reallocate its resources and to enable the management to focus more on higher growth products.

Applied (China) Limited

The Group held approximately 74.99% of the issued share capital of Applied (China) Limited ("ACL") which is also publicly listed on the Main Board of The Stock Exchange. The principal activities of ACL are to manufacture a wide range of Nano-tech and Bio-tech consumer products for its affiliated company, Quorum Global in cooperation with the Chinese partners on a joint venture basis. Totally in tune with our vision of manufacture to the highest western medical standards, ACL has been constructing a manufacturing plant in China, which will conform to the stringent and international pharmaceutical standards set by the World Health Organization's Good Manufacturing Practice.

With the rapid economic growth and the increase of elderly population in China, the growth of the healthcare products industry has accelerated. Based on a research report issued 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%. The report also revealed that the total sales of healthcare products in China are also expected to increase from RMB50 billion in 2000 to RMB80 billion in 2005. According to a study conducted in Beijing and Shanghai, 90% of the children, 75% of the elderly and 50% of other adults in China have consumed healthcare products.

Nowadays, franchising is one of the most powerful and profitable business mediums in the world. In light of the overall potential growth of the healthcare products market in China and the Group's established brand name, ACL is going to establish the franchise distribution network in China, which offers anyone the opportunity to have his own Quorum Global franchise store.

ACL has an expensive ongoing research programme on new materials and product development. A research and development committee, which is led by ACL's general manager, consists of front-line sales managers, production managers and consultants. These people meet from time to time to assess ACL's research and development needs and to formulate plans for new products and technology development. ACL also collaborates with external research and development institutions to conduct laboratory tests and clinical studies of products, which ACL has developed. ACL has also diversified its activities into properties investment in both Hong Kong and China.

Properties Interest*The People's Republic of China*

(i) Dan Shui

Following the signing of a joint venture contract between Royal Dutch Shell Group, a multinational petrochemical giant and China National Offshore Oil Corp in relation to the building of a petrochemicals complex to produce high quality petrochemicals products in Huizhou, Guangdong, it is expected that this huge project would attract large numbers of local and overseas investors to come to the surrounding areas including the large piece of land (the "Dan Shui Land") owned by the Group in the centre of Dan Shui to set up various down streams industries. This large amount of investment is expected to result in the rapid development of the construction, business, finance, hotel, recreation and service industries and will increase the working population in these areas to an addition of 1.2 million people. Consequently, there is large room for the development in land, properties and the economy in these areas.

Our Group has a land bank of approximately 730,000 sq.m. in Central Dan Shui and 1.5 acres in the old town district situated approximately 15 minutes away 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, the value of the properties in the area has increased. The Directors believe the demand for land in the area will continue to be increasing in the future. Our group will develop the land in pace with the development and production schedule of the Joint Venture. In view of the benefits derived from such large scale Joint Venture Project, the Directors expect the future prospect for the development of the Dan Shui Land will be excellent.

(ii) Jiangmen

The Group has submitted a plan to develop the 1 million sq. ft of land owned by the Group in Jiangmen, which is located near a train station and highway, for the relevant authority's approval. The Group will commence to sell the land lots after approval is obtained. We do not intend to develop the land ourselves.

Overseas

Beef Island, British Virgin Islands

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 is expected to be completed by the end of this year. Discussions and negotiations on sale of the Group's land in the area, formation of joint ventures, building of a golf course, a hotel, marina city have been conducted. The Group expects that the value of the land will be increased substantially in view of the likely developments in the area in the near future.

LIQUIDITY AND FINANCIAL INFORMATION

As at 30th June, 2002, the Group's total borrowings amounted to approximately HK\$159,128,000 with approximately HK\$120,143,000 repayable within one year, approximately HK\$5,097,000 repayable between one to two years, approximately HK\$9,940,000 repayable between two to five years and approximately HK\$23,948,000 repayable after five years. Bank balances and cash and deposits as at 30th June, 2002 amounted to approximately HK\$83,377,000. The Group's current ratio was 1.00 (2001: 0.98) and the gearing ratio which is expressed as a ratio of total liabilities and minority interests to shareholders' funds was 1.08 (2001: 0.89). Bank balances and cash and deposits were held in Hong Kong dollars. Bank borrowings were mainly denominated in Hong Kong dollars. The Group had no significant exposure to foreign exchange fluctuation.

EMPLOYEE INFORMATION

As at 30th June, 2002, the Group employed a total of 1,130 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 coverages, and provident fund scheme (as the case may be) to its employees depending on the location of such employees.

APPRECIATION

I would like to extend my heartfelt gratitude to my fellow directors and colleagues for their dedication and contribution towards the ambition of the Group throughout the year. I would also like to take this opportunity to express my appreciation to our shareholders, investors and financiers for their continued belief in Applied International and our strategy for the future. We will endeavour to explore every potential opportunity for business growth, creating a promising future and better results in the years ahead.

By order of the Board
Hung Kin Sang, Raymond
Chairman

Hong Kong, 25th October, 2002