



Applied International Holdings Limited

(Incorporated in Bermuda with limited liability)

Interim Report 2002

(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 31 December 2002 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 31 DECEMBER 2002

		Six months ended	
		31/12/02	31/12/01
		(Unaudited)	(Unaudited)
	NOTES	HK\$'000	HK\$'000
Turnover	2	65,649	111,032
Cost of sales		<u>(54,125)</u>	<u>(94,401)</u>
Gross profit		11,524	16,631
Other revenue		282	-
Distribution cost		(1,793)	(2,138)
Administrative expenses		(27,175)	(24,318)
Investment income		9	-
Interest income		1,107	74
Loss on disposal of investment properties		-	(410)
Impairment loss recognised in respect of investment properties		(48,292)	-
Impairment loss recognised in respect of other investment		(28,000)	-
Allowance on trade and other receivables		(7,100)	-
Allowance on inventory		<u>(2,000)</u>	<u>-</u>
Loss from operations		(101,438)	(10,161)
Finance costs		(3,862)	(2,995)
Loss on disposal of subsidiaries		-	(49)
Goodwill arising on acquisition of subsidiary		<u>-</u>	<u>54</u>
Loss before minority interests		(105,300)	(13,151)
Minority interests		<u>24,407</u>	<u>2,691</u>
Loss for the period	3	<u>(80,893)</u>	<u>(10,460)</u>
Loss per share	4		
- Basic		<u>(8.60 cents)</u>	<u>(1.11 cents)</u>

**CONDENSED CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2002**

	NOTES	31/12/02 (Unaudited) HK\$'000	31/12/01 (Unaudited) HK\$'000
Non-current Assets			
Investment properties	5	147,787	279,015
Property, plant and equipment		298,423	325,471
Other securities		6,158	11,621
Other investments		38,145	66,978
Goodwill		880	–
Negative goodwill		(46,119)	–
		445,274	683,085
Current Assets			
Inventories		8,145	13,000
Trade and other receivables	6	71,264	67,118
Short-term loans receivable		28,046	6,965
Pledged bank deposits		3,207	4,672
Other time deposits		38,011	–
Bank balances and cash		13,353	11,273
		162,026	103,028
Less: Current Liabilities			
Trade and other payables	7	48,842	61,934
Tax payable		6,000	6,160
Bank borrowings – due within one year		108,724	70,058
Other borrowings – secured		1,930	2,531
Obligations under finance leases – due within one year		1,711	3,431
		167,207	144,114
Net Current Liabilities		(5,181)	(41,086)
		440,093	641,999



CONDENSED CONSOLIDATED BALANCE SHEET (Continued) AT 31 DECEMBER 2002

	NOTES	31/12/02 (Unaudited) HK\$'000	31/12/01 (Unaudited) HK\$'000
Capital and Reserves			
Share capital	8	188,216	188,216
Treasury shares		(12,546)	(12,546)
Reserves	9	84,889	193,788
		<u>260,559</u>	<u>369,458</u>
Minority interests		<u>120,824</u>	<u>221,465</u>
Non-current Liabilities			
Amount due to a minority shareholder		1,073	1,069
Bank borrowings – due after one year		49,950	47,552
Deferred taxation		647	664
Obligations under finance leases – due after one year		7,040	1,791
		<u>58,710</u>	<u>51,076</u>
		<u>440,093</u>	<u>641,999</u>

**CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED
GAINS AND LOSSES
FOR THE SIX MONTHS ENDED 31 DECEMBER 2002**

	31/12/02 (Unaudited) HK\$'000	31/12/01 (Unaudited) HK\$'000
Deficit on revaluation of investment properties	(20,999)	(12,800)
Unrealised holding loss on revaluation of other securities	-	-
Net loss not recognised in the income statement	(20,999)	(12,800)
Net loss for the period	<u>(80,893)</u>	<u>(10,460)</u>
Total recognised losses	(101,892)	(23,260)
Capital reserve arising on acquisition additional interest in a subsidiary	-	215
	<u>(101,892)</u>	<u>(23,045)</u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2002**

	31/12/02 HK\$'000	31/12/01 HK\$'000
Net cash outflow from operating activities	(18,511)	(1,459)
Net cash outflow from returns on investments and servicing of finance	(2,747)	(2,921)
Net cash outflow from investing activities	<u>(10,727)</u>	<u>(64,599)</u>
Net cash outflow before financing	(31,985)	(68,979)
Net cash inflow from financing	<u>4,307</u>	<u>54,472</u>
Decrease in cash and cash equivalents	(27,678)	(14,507)
Cash and cash equivalents at beginning of the period	<u>60,941</u>	<u>(2,315)</u>
Cash and cash equivalents at end of the period	<u><u>33,263</u></u>	<u><u>(16,822)</u></u>



NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2002

1. ACCOUNTING POLICIES

The unaudited condensed financial reports have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 25, "Interim Financial Reporting", issued by the Hong Kong Society of Accountants ("HKSA"), and the disclosure requirements set out in Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")

2. SEGMENT INFORMATION

The Group's turnover and loss from operations for the six months ended 31 December 2002 analysed by product category, are as follows:

	Turnover For the six months ended 31 December		Loss from operations For the six months ended 31 December	
	2002 HK\$'000 (Unaudited)	2001 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)	2001 HK\$'000 (Unaudited)
By principal activity:				
Trading and manufacture of electronic products	60,259	105,437	(1,668)	2,978
Trading of nano and herbal products	63	-	(1,175)	-
Rental income	5,327	5,595	(3,717)	2,434
	<u>65,649</u>	<u>111,032</u>	<u>(6,560)</u>	<u>5,412</u>
Interest income			1,107	74
Other income			291	-
Other expenses			(96,276)	(15,647)
Loss from operations			<u>(101,438)</u>	<u>(10,161)</u>
By geographical area:				
Hong Kong	47,703	87,456		
Mainland China	3,199	4,359		
Other Asian countries	2,930	1,636		
Europe	408	6,286		
United States of America	11,409	11,295		
	<u>65,649</u>	<u>111,032</u>		



3. LOSS FOR THE PERIOD

Of the Group's loss for the period, a loss of HK\$80,893,000 (2001: loss of HK\$10,460,000) 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\$80,893,000 (2001: loss of HK\$10,460,000) and on the weighted average of 941,080,745 (2001: 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 (2001: share options) were higher than the market price of the Company's shares during both period.

5. INVESTMENT PROPERTIES

	2002 (Unaudited) HK\$'000
VALUATION	
At 1 July 2002	202,780
Additions	-
Deficit on revaluation	(54,993)
	<hr/>
At 31 December 2002	147,787
	<hr/>
NET BOOK VALUES	
At 31 December 2002	147,787
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At 30 June 2002	202,780
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5. INVESTMENT PROPERTIES (continued)

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

	2002 (Unaudited) HK\$'000
Held in Hong Kong:	
Long-term leases	91,000
Medium-term leases	3,820
Held outside Hong Kong:	
Medium-term leases	49,107
Freehold	3,860
	<u>147,787</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:

	31/12/02 (Unaudited) HK\$'000	31/12/01 (Unaudited) HK\$'000
Within due date	20,076	18,876
Overdue under 30 days	25,541	17,359
Overdue 31-60 days	18,166	13,094
Overdue over 60 days	7,481	17,789
	<u>71,264</u>	<u>67,118</u>



7. TRADE AND OTHER PAYABLES

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

	31/12/02 (Unaudited) HK\$'000	31/12/01 (Unaudited) HK\$'000
Within due date	12,258	14,056
Overdue under 30 days	11,597	13,523
Overdue 31-60 days	12,015	14,047
Overdue over 60 days	12,972	20,308
	<u>48,842</u>	<u>61,934</u>

8. SHARE CAPITAL

	Number of Ordinary shares	Amount (HK\$'000)
Ordinary shares of HK\$0.20 each		
Authorised:		
At 31 December 2001 and 31 December 2002	<u>2,000,000,000</u>	<u>400,000</u>
Issued and fully paid:		
At 31 December 2001 and 31 December 2002	<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	Distributable reserve HK\$'000	Translation reserve HK\$'000	Deficit HK\$'000	Total HK\$'000
At 1 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 31 December 2001	<u>3</u>	<u>(12,201)</u>	<u>8,510</u>	<u>10,892</u>	<u>220,629</u>	<u>93,961</u>	<u>(2,975)</u>	<u>(125,031)</u>	<u>193,788</u>
At 1 July 2002	3	(14,598)	10,378	10,892	220,414	93,961	(3,093)	(142,488)	175,469
Exchange different arising on translation of financial statements of subsidiary outside Hong Kong	-	-	-	-	-	-	1,384	-	1,384
Deficit on revaluation of investment properties	-	-	(11,071)	-	-	-	-	-	(11,071)
Net loss for the period	-	-	-	-	-	-	-	(80,893)	(80,893)
At 31 December 2002	<u>3</u>	<u>(14,598)</u>	<u>(693)</u>	<u>10,892</u>	<u>220,414</u>	<u>93,961</u>	<u>(1,709)</u>	<u>(223,381)</u>	<u>84,889</u>



10. WARRANTS

On 2 May 2000, the Company made a bonus issue of warrants on the basis of one warrant for every five shares. These warrants entitle the holders to subscribe in cash for new shares of the Company of HK\$0.20 each at subscription price of HK\$0.48 per share, subject to adjustment, at any time from 4 May 2000 up to and including 30 April 2004. At 30 June 2002, the Company had outstanding warrants of HK\$90,880,000. Exercise in full of such warrants would result in the issue of approximately 189,334,000 shares at a subscription price of HK\$0.48 per share, subject to adjustment.

11. SHARE OPTION SCHEME

The Company

There were no movements in share options granted under the Company's share option scheme during the year.

The outstanding share options of 15,400,000 at an exercise price of HK\$0.36 per share at 30 June 2002 can be exercised at any time on or before 2 July 2002.

12. PLEDGE OF ASSETS

At 31 December 2002, the Group pledged its bank deposits, investment properties and property, plant and equipment amounting to HK\$3,207,000 (2001: HK\$4,672,000), HK\$94,820,000 (2001: Nil) and HK\$41,410,000 (2001: Nil), respectively, to secure general banking facilities granted to the Group.



RESULTS

The Directors of the Company announce that the unaudited consolidated loss attributable to shareholders of the Group for the six months ended 31 December 2002 amounted to approximately HK\$80,893,000, comparing to last period's loss of approximately HK\$10,460,000. Turnover for the six months ended 31 December 2002 was approximately HK\$65,649,000 compared to the turnover of approximately HK\$111,032,000 in the same period of last year, representing a decrease of 41%.

INTERIM DIVIDEND

The Directors do not recommend payment of a dividend for the period ended 31 December 2002 (No dividend was recommended or paid for the period ended 31 December 2001).

During the period under review, Applied International Holdings Limited (the "Company", together with its subsidiaries hereinafter referred to as the "Group") began on a new strategic direction and adopted a new approach to marketing and distribution of a series of nano and Chinese herb products.

REVIEW OF OPERATIONS AND PROSPECTS

The unaudited consolidated loss attributable to shareholders of the Group for the period ended 31 December 2002 amounted to approximately HK\$80,893,000 (compared to approximately HK\$10,460,000 for the period ended 31 December 2001), which included the loss of approximately HK\$85,392,000 (compared to approximately HK\$Nil for the period ended 31 December 2001) investment properties of HK\$48,292,000, other investment of HK\$28,000,000, trade and other receivables of HK\$7,100,000 and inventory of HK\$2,000,000, and HK\$85,392,000, attributable from Applied (China) Limited, a 74.99% owned subsidiary of the Company, the shares of which shares are listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange"). Turnover for the period ended 31 December 2002 was approximately HK\$65,649,000 (compared to the turnover of approximately HK\$111,032,000 for the period ended 31 December 2001), representing a decrease of approximately 41%. The gross profit margin maintained at approximately 17.6% as compared to 15% for the period 31 December 2001. The distribution, administrative and financing expenses for the period ended 31 December 2002 amounted to approximately HK\$32.8 million, which represented an increase of 11.5% from the expenses incurred in the preceding period.



REVIEW OF OPERATIONS AND PROSPECTS (Continued)

The significant loss for the period ended was attributable to the setting up of sales offices in Australia and the United States 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 advance computer programs, software and equipment, and a new accounting and customer database management system have all contributed to the increase in operational costs and thus loss in the period under review. The Group's results were also affected by expenses in the research and development of the Group's products.

MULTI-LEVEL MARKETING (QUORUM GLOBAL LIMITED)

Our Group intends to re-commence Multi-Level Marketing (MLM) business through our subsidiary Quorum Global Limited ("Quorum Global"). Sales offices have been set up in the USA and Australia to conduct and promote MLM business. A back-end office will be set up in Shenzhen, China to process order entry, customer services, technical support, management information, accounting, warehousing and international despatch and logistics services to reduce our operational costs.

Our Mission is to promote optimal health and to enhance life through our dynamic natural health products.

Quorum Global is at the forefront in combining past knowledges and advanced biomedical research results from NanoScience knowledge and laboratories.

We modernise Traditional Chinese Medicines (TCM) which has a long history by standardizing herbal supplements. The result enhances health of human beings.

We also embrace an advanced form of scientific engineering called Nano Technology and NanoScience. Nano Technology and NanoScience provide us with exclusive ceramic compounds that can be fused, woven and blended into other materials. These materials are then formed and patterned into innovative personal healthcare products for passive alternative health benefits.

With the introduction of both herbal and nano products, the Company has initiated sales and marketing in the USA and Australia. From the San Francisco, California office - Quorum Global will expand throughout North America into selected markets in Central and South America. From the Sydney, Australia office - Quorum Global will divert into other selected Asia-Pacific markets.



MULTI-LEVEL MARKETING (QUORUM GLOBAL LIMITED) (Continued)

In the future the Company also plans to expand into the European Union (EU) markets, and will select appropriate Western and Eastern European countries.

To help ensure the Company's success, Quorum Global has developed an experienced management team.

In Hong Kong, the Company has built a team of professional administrative, financial and IT management staff.

Quorum Global has also retained well-trained and motivated support staff under the management in different markets.

APPLIED (CHINA) LIMITED

The Group held approximately 74.99% of the issued share capital of Applied (China) Limited ("ACL"), whose shares are listed on the Main Board of The Stock Exchange. The principal activities of ACL include sale of Chinese herbal products in China and to its affiliated company, Quorum Global.

ACL has also diversified its activities into properties investment in both Hong Kong and China.

OEM BUSINESS

The Group's OEM manufacturing company, supported by a stable customer base, has generated steady income over the period under review even though the business was suffering from competitive market conditions. In order to maintain its competitiveness, the Group has implemented a series of proactive measures with an aim to reallocate its resources by being conscious in cost and focusing more on high growth products.



PROPERTIES INTEREST

The People's Republic of China

(i) *Dan Shui*

A joint venture contract has been entered into between Royal Dutch Shell Group, a multinational petrochemical giant and China National Offshore Oil Corp, whereby they have agreed to build a petrochemical complex ("Joint Venture") to produce high quality petrochemical products in Huizhou, Guangdong. It is expected that the Joint Venture would attract large numbers of local and overseas investors to the area, and would result in the rapid development in industries like Huizhou is located the construction, finance, hotel, recreations and services, and will increase the working population in the area by an addition of 1.2 million people.

The Group owns a piece of land of approximately 730,000 sq.m. in Central Dan Shui, Guangdong, and another piece of land of 1.5 acres in the old town district of Dan Shui. It has recently been announced that Huizhou situated close to the land owned by the Group. The Group's properties have been designated by the state government for residential and commercial usages to support the expected growth in population in the area as a result of the Joint Venture. After the Joint Venture was announced, the value of land in the area has increased. The Directors believe the demand for land in the area will continue to increase in the future. The Group intends to develop the properties in pace with the development and production schedule of the Joint Venture. In view of the benefits which are expected to be derived from the Joint Venture, the Directors expect a good future for the Group's property interest in Dan Shui.

(ii) *Jiangmen*

The Group has submitted a plan to develop a piece of 1 million sq ft 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 start selling the land after approval is obtained because the Group does not intend to develop the land itself. Getting the approval will improve the value and the chance of selling the land.



PROPERTIES INTEREST (Continued)

Overseas

Beef Island, the British Virgin Islands

The Group owns a piece of land of approximately 682 acres in Beef Island, the British Virgin Islands. Beef Island is expected have direct flights from New York, Florida and other major cities in the United States by the end of this year. The Group has been in discussion and negotiation in using the property for different ventures, including to convert it into a golf course with hotel facilities, or to develop it into a marine city. The Group has also considered selling it. No decision has been made, but the Group expects that the value of the property will increase in view of the likely developments in the area in the near future.

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 SHARES AND WARRANTS

At 31 December 2002, the interests of the directors and their associates in the share capital and warrants of the Company and its associated corporations, within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance or as otherwise 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 the Listed Companies in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

**DIRECTORS' INTERESTS IN SHARES AND WARRANTS (Continued)**

Name of directors	Number of ordinary shares			Number of warrants		
	Personal interests	Other interests	Corporate interests	Personal interests	Other interests	Corporate interests
Hung Kin Sang, Raymond	3,280,000	405,655,584 (Note)	48,329,000 (Note)	560,000	81,131,116 (Note)	9,665,800 (Note)
Hung Wong Kar Gee, Mimi	8,870,056	405,655,584 (Note)	48,329,000 (Note)	1,774,011	81,131,116 (Note)	9,665,800 (Note)
Fang Chin Ping	100,000	-	-	20,000	-	-
Soo Hung Leung, Lincoln	1,100,000	-	-	220,000	-	-

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
iQuorum Cybernet Limited ("iQuorum")	48,329,000	9,665,800

Malcom Trading Inc., Primore Co. Inc. and Capita Company Inc. are wholly-owned by the 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 Mr. Hung Kin Sang, Raymond and Madam Hung Wong Kar Gee, Mimi.

iQuorum is a wholly-owned subsidiary of Applied (China) Limited ("ACL"), a company which shares are listed on the Stock Exchange and the Group held 861,887,920 shares and 59,202,503 warrants at 30 June 2002. The above directors have indirect interests in ACL.

At 31 December 2002, Mr. Fang Chin Ping held 200,000 ordinary shares of Quorum Bio-tech Limited, a 66.7% owned subsidiary of the Company.

Save as disclosed above and other than certain nominee shares in subsidiaries held in trust for the Company by certain directors at 31 December 2002, none of the directors or their associates had any personal interests, family interests, corporate interests or other interests in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance.



DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

(a) Share options in the Company

1997 Scheme

The Company's share option scheme adopted on 28 May 1997 (the "1997 Scheme") for the primary purpose of providing incentives to directors and eligible employees and was terminated on 16 September 2002.

Under the 1997 Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company for a consideration of HK\$1 for each lot of share options granted. Options granted should be accepted within 30 days from the date of grant.

The exercise price is determined by the directors of the Company, and is the higher of the nominal value of the Company's shares and an amount which is not less than 80% of the average closing price of the shares for the five trading days immediately preceding the option is granted.

At 30 June 2002, the number of shares in respect of which options had been granted and remained outstanding under the 1997 Scheme was 15,400,000 shares, representing 1.6% of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the 1997 Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time.

Options granted under the 1997 Scheme are exercisable within a period of five years from the date the options are granted. There were no movements in share options granted under the 1997 Scheme during the year.



DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES (Continued)

(a) Share options in the Company (Continued)

1997 Scheme (Continued)

Details of share options granted under the 1997 Scheme to the directors of the Company are as follows:

Name of directors	Date of grant	Exercise price HK\$	Options outstanding at 1.7.2001 and 30.6.2002
Hung Kin Sang, Raymond	3 July 1997	0.36	8,400,000
Hung Wong Kar Gee, Mimi	3 July 1997	0.36	7,000,000

The outstanding share options can be exercised at any time on or before 2 July 2002.

2002 Scheme

On 16 September 2002, the Company adopted a new share option scheme (the "2002 Scheme") for the primary purpose of providing incentives to directors and eligible employees. The 2002 Scheme will expire on 15 September 2012. Under the 2002 Scheme, the board of directors of the Company may grant options to eligible employees, including executive directors of the Company and its subsidiaries, to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the 2002 Scheme is not permitted to exceed the higher of 10% of the shares of the Company in issue as at the date of adoption of the 2002 Scheme. The number of shares in respect of which options may be granted to any individual is not permitted to exceed the higher of 1% of the number of shares issued and issuable under the 2002 Scheme or any other limit as may be permitted under the Listing Rules.



DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES (Continued)

(a) Share options in the Company (Continued)

2002 Scheme (Continued)

Options granted must be taken up within 30 days of the date of grant, upon payment of HK\$1 per grant. Options may be exercised at any time from the date of grant to the 10th anniversary of the date of grant. In each grant of options, the board of directors may at their discretion determine the specific exercise period. The exercise price is determined by the directors of the Company, and will be less than the higher of (i) the closing price of the Company's share on the date of grant; (ii) the average closing price of the Company's shares for the five business days immediately preceding the date of grant, and (iii) the nominal value of the Company's shares.

No option has been granted under the 2002 Scheme since its adoption.

(b) Share options in ACL

ACL 1991 Scheme

ACL's share option scheme adopted on 6th September, 1991 (the "ACL 1991 Scheme") for the primary purpose of providing incentives to directors and eligible employees and expired on 5th September, 2001.

Under the ACL 1991 Scheme, the board of directors of ACL may grant options to eligible employees, including directors of ACL and its subsidiaries, to subscribe for shares in ACL for a consideration of HK\$1 for each lot of share options granted. Options granted should be accepted within 21 days from the date of grant.

The exercise price is determined by the directors of ACL, and is the higher of the nominal value of ACL's shares and an amount which is not less than 80% of the average closing price of the shares for the five trading days immediately preceding the option is granted.



DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES (Continued)

(b) Share options in ACL (Continued)

ACL 1991 Scheme (Continued)

The total number of shares in respect of which options may be granted under the ACL 1991 Scheme is not permitted to exceed 10% of the shares of ACL in issue at any point in time.

Options granted under the ACL 1991 Scheme are exercisable within a period of three years from the date the options are granted.

There were no share options granted or exercised during the year or outstanding at 1 July 2001 and 30 June 2002.

ACL 2002 Scheme

On 16 September 2002, ACL adopted a new share option scheme (the "ACL 2002 Scheme"). The details of the ACL 2002 Scheme are the same as the 2002 Scheme of the Company.

No option has been granted under the ACL 2002 Scheme since its adoption.

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 rights during the period.



SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed under the heading "DIRECTORS INTERESTS IN SHARES AND WARRANTS" 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 31 December 2002.

LIQUIDITY AND FINANCIAL INFORMATION

As at 31 December 2002, the Group's total borrowings amounted to approximately HK\$169,355,000 with approximately HK\$112,365,000 repayable within one year, approximately HK\$24,000,000 repayable between one to two years, approximately HK\$7,300,000 repayable between two to five years and approximately HK\$25,690,000 repayable after five years. Bank balances and cash and deposits at 31 December 2002 amounted to approximately HK\$54,571,000. The Group's current ratio is 0.94 (the current ratio was 0.71 as at 31 December 2001) and the current gearing ratio (a ratio of total bank liabilities to total assets) is 0.28 (the gearing ratio was 0.16 as at 31 December 2002). Bank balances and cash 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.

ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATES

During the period, there was no material acquisition or disposal of the Company's subsidiaries and associates.

EMPLOYEE INFORMATION

As at 31 December 2002, 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 coverages, and provident fund scheme (as the case may be) to its employees depending on the location of such employees.



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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the period ended 31 December 2002.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed on auditing, internal controls and financial reporting matters including the review of the unaudited interim financial statements.

CODE OF BEST PRACTICE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not or was not for any part of the accounting period covered by this interim report, in compliance with the Code of Best Practice set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited.

By Order of the Board
Hung Kin Sang, Raymond
Chairman

Hong Kong, 25 March 2003