



Directors' Report

The directors present their annual report and the audited financial statements for the year ended 30th June, 2003.

PRINCIPAL ACTIVITIES

The Company is an investment holding company and its principal subsidiaries are engaged in the manufacture and trading of electronic and healthcare products and property investment. The Group's head office is in Hong Kong and all of its manufacturing operations are located in the People's Republic of China.

RESULTS AND APPROPRIATIONS

The Group's results for the year ended 30th June, 2003 are set out in the consolidated income statement on page 17.

The directors do not recommend the payment of a dividend for the year.

MAJOR SUPPLIERS AND CUSTOMERS

During the year, the aggregate purchases attributable to the Group's five largest suppliers comprised approximately 67% of the Group's total purchases and the purchases attributable to the Group's largest supplier was approximately 16%.

The aggregate sales attributable to the Group's five largest customers was approximately 75% and the sales attributable to the Group's largest customer was approximately 29%.

None of the directors, their associates or shareholders which, to the knowledge of the directors, owned more than 5% of the Company's issued share capital had any beneficial interest in the five largest suppliers or customers of the Group.

SHARE CAPITAL AND WARRANTS

Details of the share capital and warrants of the Company are set out in notes 24 and 25 to the financial statements, respectively.

INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

The investment properties of the Group were revalued on 30th June, 2003 by an independent firm of professional property valuers on an open market value basis, and the resulting deficit on revaluation of these properties amounting to HK\$95,400,000, out of which HK\$28,002,172 has been charged to the investment property revaluation reserve and the remaining balance of HK\$67,397,828, being the excess of the deficit over the balance on the investment property revaluation reserve, is charged to the income statement.

During the year, the Group spent approximately HK\$7,700,000 on tools, equipment and moulds for the purpose of upgrading of its production facilities.

Details of these and other movements during the year in the investment properties and property, plant and equipment of the Group are set out in notes 10 and 11 to the financial statements, respectively.



MAJOR PROPERTIES

Details of the major properties of the Group as at 30th June, 2003 are set out on page 54.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Mrs. Hung Wong Kar Gee, Mimi (*Chairman*)
Mr. Hung Kin Sang, Raymond
Mr. Fang Chin Ping

Independent non-executive directors:

Mr. Lun Tsan Kau
Mr. Lo Yun Tai

In accordance with Articles 87 and 88 of the Company's Bye-laws, Mr. Lo Yun Tai will retire at the forthcoming annual general meeting and, being eligible, will offer himself for re-election. All of the remaining directors will continue in office.

The term of office of each non-executive director is the period up to his retirement by rotation in accordance with the Company's Bye-laws.

CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Details of discloseable connected transactions for the year are as follows:

- (a) At 30th June, 2003, Mrs. Hung Wong Kar Gee, Mimi and Mr. Hung Kin Sang, Raymond, directors of the Company, had outstanding joint and several guarantees issued in favour of a bank in respect of credit facilities granted by the bank to a subsidiary amounting to approximately HK\$24,373,000. In addition, Mrs. Hung Wong Kar Gee, Mimi advanced an aggregate of approximately HK\$2,214,000 to the Group. The advance is unsecured, non-interest bearing and has no fixed terms of repayment.
- (b) During the year, the Group advanced an aggregate of approximately HK\$2,352,000 and HK\$5,013,000 to the ultimate holding company, Applied International Holdings Limited ("AIHL") and its fellow subsidiaries, respectively. The advances were unsecured, non-interest bearing and have no fixed terms of repayment.
- (c) During the year, the Group entered into sales transaction with a fellow subsidiary with an aggregate amount of approximately HK\$3,593,000. The transactions were carried out at a cost plus percentage of profit mark-up.



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CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE (*cont'd*)

- (d) During the year, the aggregate value of the transactions entered into by RJP International Limited, a wholly-owned subsidiary of the Company, with a fellow subsidiary pursuant to the Contract Manufacture Agreement described in the Circular to Shareholders dated 26th August, 1996 did not exceed HK\$185 million for the twelve months ended 30th June, 2003.

In accordance with the conditions agreed with The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with respect to connected transactions, the independent non-executive directors of the Company have reviewed the connected transactions set out above and have confirmed that the transactions were carried out in accordance with the terms of the relevant agreement, or if the transaction is not governed by an agreement:

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms; and
- (iii) on terms that are fair and reasonable so far as the shareholders of the Company are concerned.

Save as disclosed above:

- (i) no contracts of significance subsisted at the end of the year or at any time during the year to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly; and
- (ii) there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Details of the share option schemes of AIHL and of the Company are set out in note 35 to the financial statements.

Save as disclosed above, at no time during the year was the Company or any of its holding companies or fellow 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 debt securities, including debentures, of the Company or any other body corporate.



DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 30th June, 2003, the interests and short positions of the directors and their associates in the shares, underlying shares and debentures of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

(1) Long positions in shares and warrants of the Company

(a) Ordinary shares

<u>Name of director</u>	<u>Number of issued ordinary shares held by controlled corporations</u>	<u>Percentage of the issued share capital of the Company</u>
		<i>(Note)</i>
Hung Wong Kar Gee, Mimi	861,887,920	74.99%
Hung Kin Sang, Raymond	861,887,920	74.99%

(b) Warrants

<u>Name of director</u>	<u>Number of warrants held by controlled corporations</u>	<u>Number of underlying shares</u>
		<i>(Note)</i>
Hung Wong Kar Gee, Mimi	59,202,503	59,202,503
Hung Kin Sang, Raymond	59,202,503	59,202,503

Note: 604,263,167 shares and 58,702,517 warrants were held by Batimate Limited, and 1,118 shares and 111 warrants were held by Applied Electronics Limited, both of which are wholly-owned subsidiaries of AIHL. The remaining 257,623,635 shares and 499,875 warrants were held by AIHL. Mrs. Hung Wong Kar Gee, Mimi and Mr. Hung Kin Sang, Raymond are the substantial shareholders of AIHL.

(2) Long positions in shares of a subsidiary

At 30th June, 2003, Mr. Fang Chin Ping, a director of the Company, held 200,000 ordinary shares of Quorum Bio-tech Limited, a subsidiary of the Company.



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DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES (cont'd)

(3) Long positions in shares and warrants of AIHL

(a) Ordinary shares

Name of director	Number of AIHL's issued ordinary shares			Total	Percentage of issued share capital of AIHL
	Beneficial owner	Held by a discretionary trust <i>(Note i)</i>	Held by a controlled corporation <i>(Note ii)</i>		
Hung Wong Kar Gee, Mimi	8,870,056	405,655,584	48,329,000	462,854,640	49.18%
Hung Kin Sang, Raymond	3,280,000	405,655,584	48,329,000	457,264,584	48.59%
Fang Chin Pang	100,000	-	-	100,000	0.01%

(b) Warrants

Name of director	Number of AIHL's warrants			Total	Number of underlying shares
	Beneficial owner	Held by a discretionary trust <i>(Note i)</i>	Held by a controlled corporation <i>(Note ii)</i>		
Hung Wong Kar Gee, Mimi	1,774,011	81,131,116	9,665,800	92,570,927	92,570,927
Hung Kin Sang, Raymond	560,000	81,131,116	9,665,800	91,356,916	91,356,916
Fang Chin Pang	20,000	-	-	20,000	20,000

Notes:

(i) These shares and warrants were held by the following companies:

	Number of ordinary shares	Number of warrants
Malcolm 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
	<u>405,655,584</u>	<u>81,131,116</u>

Malcolm 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 Mrs. Hung Wong Kar Gee, Mimi.

(ii) These shares and warrants were held by iQuorum Cybernet Limited, a wholly-owned subsidiary of the Company.



DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES *(cont'd)*

(3) Long positions in shares and warrants of AIHL *(cont'd)*

Save as disclosed herein and other than certain nominee shares in the subsidiaries held in trust for the Group, none of the directors, chief executives or their associates had any interests, or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 30th June, 2003.

SUBSTANTIAL SHAREHOLDERS

Other than the interests of AIHL and Batimate Limited disclosed under the heading "Directors' interests in shares and underlying shares" above, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO discloses no person as having a notifiable interest or short position in the issued share capital of the Company as at 30th June, 2003.

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

During the year, there was no purchase, sale or redemption of the shares of the Company by the Company or any of its subsidiaries.

DONATIONS

During the year, the Group made charitable and other donations of approximately HK\$612,000.

CORPORATE GOVERNANCE

In the opinion of the directors, the Company has complied throughout the year with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-Laws, or the Laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

POST BALANCE SHEET EVENT

Details of the significant event occurring after the balance sheet date are set out in note 38 to the financial statements.

AUDITORS

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

HUNG KIN SANG, RAYMOND

Director

Hong Kong, 28th October, 2003