

During the year ended 30th June, 2003, Applied International Holdings Limited (the "Company", together with its subsidiaries collectively referred to as the "Group") embarked on a new strategic direction. By adopting an innovative approach to the marketing and distribution of nano and bio-technology consumer products and Chinese herbal products, the Group has set on a course towards rapid and substantial growth.

#### **DIVIDEND**

The Directors do not recommend payment of dividends for the year ended 30th June, 2003 (2002: Nil).

#### **Review of Operations and Prospects**

The audited consolidated loss attributable to shareholders of the Group for the year ended 30th June, 2003 amounted to approximately HK\$167,386,000 (compared to approximately HK\$27,917,000 for the year ended 30th June, 2002), which included the deficit on revaluation of investment properties of HK\$78,012,000, impairment loss recognised in respect of other investments of HK\$38,968,000, allowance for trade and other receivables of HK\$17,613,000, and short-term loans receivable of HK\$23,990,000. Turnover for the year ended 30th June, 2003 was approximately HK\$125,866,000 (compared to the turnover of approximately HK\$191,895,000 for the year ended 30th June, 2002), representing a decrease of approximately 34.4%. The gross profit margin maintained at approximately 24.8% as compared to 20.5% for the year ended 30th June, 2002. The distribution, administrative and financing expenses for the year ended 30th June, 2003 amounted to approximately HK\$88,504,000, which represented an increase of 28.2% from the expenses incurred in the preceding year.

The significant loss for the year ended 30th June, 2003 was attributable to the setting up of sales offices in Australia and the United States of America "U.S.A." 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 for the year ended 30th June, 2003. The Group's results were also affected by expenses incurred in the research and development of the Group's products.

## Overview

The Group is engaged in the development and distribution of Nanotechnology and Traditional Chinese Medicine (TCM) healthcare products in U.S.A., Canada and Australia under the brand name, Quorum Global™, through its network-marketing distribution network.

In 2002, Quorum Global was formed in response to emerging trends in consumer health consciousness, global communications, and new health science Nano technologies-creating outstanding marketing opportunities on a global scale. By introducing the integrated network-marketing distribution network, the Group is able to establish an exclusive line of synergistic products through a dedicated direct sales channel, supported by both online and traditional media promotion and advertising.



The Company is headquartered in Hong Kong, with regional marketing operations in the Redwood City, California and Sydney, Australia. This is further supported by an Asia-Pacific IT/Data Center – providing virtually 24 hour support and business development.

All together, Quorum Global has the management experience, unique products, integrated manufacturing, and global distribution network to become a major provider of innovation health products to an expanding global market place.

## Our Modern World Prefers Natural Alternatives

Today, most people prefer all-natural alternative treatments to synthetic prescription drugs or invasive medical procedures.

In the USA, people make more visits to non-conventional healers (600 million visits) than they do to Medical Doctor and spend an estimated \$30 billion a year for these complementary and alternative medicine therapies. In 1998 the National Institutes of Health turned the small "Office of Alternative Medicine" into the "National Center for Complementary and Alternative Medicine" (NCCAM) with a \$100 million budget.

And now, most leading medical schools, including Columbia, Duke, Harvard and the University of California offer courses in Complimentary and Alternative Medicine.

Hospitals are also increasing natural therapies to patients, and health insurance companies are also beginning to recognize their value and provide coverage.

**Products**

The Group's products are developed and distributed in two main categories based on the Herbal (Bio QX)<sup>TM</sup> and Nano-Science (Nano Pro)<sup>TM</sup>.

- (1) *Bio QX<sup>TM</sup>* – Herbal products remedies from Traditional Chinese Medicine (TCM), which help to maintain normal cholesterol, enhance the skin and help remove toxins.

To strengthen vital energy (Qi) and wellness, Quorum Global herbalists have identified trusted herbal remedies from Traditional Chinese Medicine (TCM), which have been shown to be effective over the course of their 3,000 years of development. Now they are produced to a higher nutraceutical standard in our own GMP facility, for optimal effectiveness and bio-availability. These products strengthen Qi, support vital systems, help maintain normal cholesterol, enhance the skin and help remove toxins.

*Life Qi<sup>TM</sup> – LingZhi Peptide to help Maintain Qi*

- Supports health, energy, strength and general well being
  - Helps maintain healthy circulation
  - Promotes calmness and restful sleep
  - Helps maintain healthy immune function
  - Supports respiratory health
  - Fights free radicals
- (Size: 90 Capsules per bottle)



*Qi Concentrate<sup>TM</sup> – LingZhi Essence to Boost Qi*

- For energy, vitality and strength
  - Helps improve athletic performance
  - Promotes calmness and restful sleep
  - Helps maintain healthy immune function
  - Supports respiratory health
  - Fights free radicals
- (Size: 100 ml bottle in 3 or 9 packs)



*Royal Qi<sup>TM</sup> – Yunzhi Peptide for Optimal Qi*

- Supports immune function
  - Provides vitality and strength
  - Promotes calm and sense of well-being
  - Supports respiratory health
  - Provides energy recovery after exercise
- (Size: 90 Capsules per bottle)



*Cell U Clear™ – To help Maintain Normal Cholesterol Levels*

- Helps maintain healthy capillary circulation
- Promotes calmness and sense of well-being
- Supplies essential fatty acids that help maintain cardiovascular health

(Size: 180 Capsules per bottle)



*Royal Vitality™ – Cordycep Peptide to help Strengthen Vital Systems*

- Performance, endurance and stamina enhancer
- Helps maintain and improve vitality and well-being
- Helps boost energy and fight mild, everyday fatigue
- Promotes sexual vitality
- Helps maintain healthy lungs, heart and immune function
- Fights free radicals

(Size: 90 Capsules per bottle)



*Radiance™ – Skin Care from Within*

- Enhanced Pollen containing vitamins, minerals, trace elements, enzymes and amino acids to help improve skin health and complexion.

(Size: 90 Capsules per bottle)



*Quorum Coffee Diet*

By combining the power of neurological Qi and Traditional Chinese Medicine (TCM), losing or maintaining weight has never been easier or more advanced. Quorum Coffee Diet proven to be effective in five independent clinical trials, and published in JANA. The Journal of the American Nutraceutical Association. Clinically shown to lose up to 5 lbs/month of fat, not water weight!



Scientifically designed to induce weight loss:

1. Increases production of serotonin to decrease carbohydrate cravings.
2. Increases production of dopamine to increase body's metabolic rate.
3. Increases histamine to release neuropeptides, shifting body's metabolism to burn fat, rather than protein, resulting in preferential fat burning.

Does NOT contain ephedrine or ma huang.

The caffeine in coffee acts as the stimulant to activate the process, with just 1/3 of a cup of coffee (just 40 mg of caffeine).

Can also use Green Tea, Black Tea, Cola, or (40 mg of theobromines found in) Cocoa.

*Maya Gold Coffee*

The perfect companion to the QUORUM COFFEE DIET.

An all-natural, organic, pesticide-free coffee that is shade grown for maximum flavor and aroma.

Fresh ground coffee is packed in airtight bags to provide a consistent "perfect pot" of extraordinary rich flavor and aroma.



(2)



*Nano Pro™* – textile products based on the latest Nano-Science, which help to conserve vital energy, enhance cellular metabolic functions and help to discharge accumulated wastes and toxic elements.

NanoPro a new line of passive, personal health products based on the latest NanoScience innovations to help conserve vital energy.

Placing the special materials utilized in these products next to a person's body, helps provide Reflective Resonant Energy (RRE) back to the individual, which stimulates and excites the molecular cells. This causes a subtle thermal effect to speed blood flow and improve nutritional supply to critical organs, by improving microcirculation, enhancing cellular metabolic functions, and helping to discharge accumulated wastes and toxic elements.

*Nano-Flow™* – Pillows

*Nano-Flow™* Pillows are made of special viscose-elastic foam that was developed to reduce pressure points. This provides a pillow that contours to the shape of your neck and head for maximum comfort. It adjusts to individual neck height and cervical radius.



*Nano-Sphere™* Pillows

The *Nano-Sphere™* Pillows are shaped to support the head and neck; and are reversible, offering two sleeping surfaces. The pearl spheres with their hollow core help to disperse heat and moisture from head and neck – ideal for warmer nights. The pillow's fiber surface provides soft support and reflects warmth for cooler nights. Both sides provide the benefits of reflective energy.



*Nano-Aire™* Pillows

*Nano-Aire™* Pillows are also designed following the physiological curve of the neck. The nano-activated sponge has ventilation pores for added comfort.



*NanoPro™ Support Apparel to Strengthen Qi*

NanoPro™ products contain an exclusive ceramic compound developed through NanoScience research, to reflect a person's biological wavebands back to them.

This creates a subtle thermal effect which has been shown to enhance microcirculation and cellular metabolic function, helps remove built-up toxins and stimulates acupoints along the body's energy meridians.

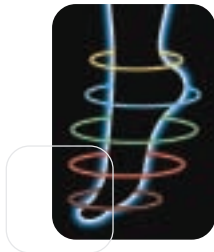
*Shoe Insert Pads*

The NanoPro™ Shoe Inserts reflect energy to micro-massage critical acupoints in the feet, which lead to all organs in the body. Helps to stimulate excellent meridian balance and enhances Qi-blood propagation.

- Conforms to help relieve pressure points
- Shock-absorbing comfort
- Helps stimulate acupoints in the feet
- Enhances microcirculation
- Anti-bacterial – reduces odor and bacteria on the skin
- Easy Trim-to-Fit sizing



*Men and Ladies Socks*



NanoPro™ Socks stimulates acupoints in the feet and can also help increase resistance to odor-causing bacteria on the skin.

- Stimulates acupoints in the feet and ankles
- Enhances microcirculation
- Helps to energize tired feet and legs
- Anti-bacterial – reduces odor and bacteria on the skin
- Helps keep feet dry and comfortable



*Knee Support*

NanoPro™ Knee Supporters comfortably stretch and secure into place, to enhance microcirculation in the joints.

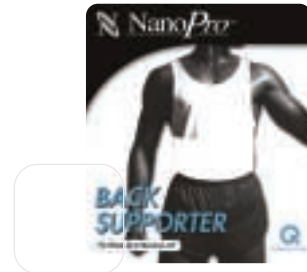
- Stimulates acupoints in knee joint area
- Enhances microcirculation to help relieve tired muscles
- Provides added knee support and stability
- Designed to allow full range of motion
- Soft, lightweight and “breathes” for 24-hour comfort
- Two per package for balanced therapy



*Back Supporter*

The Back Supporter is adjustable to most waist sizes and helps to increase microcirculation to the lower back.

- Stimulates acupoints in lower back
- Enhances microcirculation to help relieve tired muscles
- Provides added lower back support
- Improves posture to help reduce stress muscles
- Stabilizer strap included for added support
- Soft and lightweight for 24-hour comfort



The Bio QX and Nano Pro have been proven by various universities and research institution as being able to enhance blood microcirculation and anti-aging.

**Strength**

- (1) Brand name – The emphasis placed by the Group on promotional campaigns have resulted in the Quorum Global brand name being the healthcare products in the world.
- (2) Developing distribution network – The network marketing distribution network of the Group which was established in the U.S.A., Australia and Canada enables the Group to penetrate into the healthcare products markets.
- (3) Research and development expertise – The Group has the right to access the latest Nano-Science technology from Tsinghua University (China), for enhancing its existing products and developing new products.
- (4) Management expertise – The management team of the Group is familiar with the network-marketing business and the market development of the healthcare, medical and textile industries, which enables the Group to identify the latest market trends and development.
- (5) Strong Management Information System (MIS) – The Group has invested over US\$1.5 Million into the MIS data system, which enables the management to carry out an accurate and closely control led monitor on inventories and accountings.

**Future Plans and Prospects**

The Group's objectives are to increase its market share in the health products market in the U.S.A., Australia and Canada, and with further expansion into Latin America, Eastern Europe, Russia and Asia-Pacific markets.



## Strategy

In order to achieve the above objectives, the Group has adopted the following strategies for its business operations:

- (1) Enhance existing products – to increase the market share of its products. The Group has and will continue to place great emphasis on improving quality and the effectiveness of its existing products.
- (2) Develop new Nano-Pro products – The Directors intend to leverage on the success of its existing products by launching new NanoPro products to the market upon completion of clinical tests. The Group has scheduled to launch two new lines of products targeting the underwear and the bedding markets.
- (3) Continue to develop new Herbal Products – with the existing technology in manufacturing herbal products, the directors intend to expand the current range of herbal products.
- (4) Enhance the Group's research and development capability – the Directors intend to enter into partnerships and strategic relationships with scientific and academic institutions, renowned scientists and entrepreneurs in the PRC for the development of new products and enhancement of its existing technology. The Directors also intend to acquire proprietary rights of innovative technologies from its strategic partners.
- (5) Expand into other markets – to enhance the distribution channels of our products, the Group has planned to expand into various markets in the world. In the future, the Company will expand into the European Union, selected Western and Eastern European countries, Central and South America and other selected Asia Pacific markets.
- (6) Franchise in China – the Group is now preparing the expansion into the China market by using the franchise distribution, and believes that the China market will become one of the fastest growth markets.
- (7) GMP Factory – to ensure the quality of our Group's products, plan to apply the GMP license for the factory in China. Recently, our Group has started to build the GMP formatted factory in Ping Wu, Guangdong, China.



**APPLIED (CHINA) LIMITED**

The Company holds 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 the sale of Chinese herbal products in China and to its affiliated company, Quorum Global.

ACL has also diversified its activities into property 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 during the year ended 30th June, 2003 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 higher growth products.

**PROPERTIES INTEREST****The People's Republic of China***(i) Dan Shui*

Applied Properties (Hui Yang) Limited S.A. (herein known as "APHY"), a wholly-owned subsidiary of the Company, has agreed to sell its 59% interest in the JV Company, a joint venture company between the APHY and the JV Partner which was established for purposes of developing the Dan Shui Property, to the Purchaser for a consideration of approximately RMB62.5 million (approximately HK\$58,962,264). Pursuant to the Supplemental Agreements, APHY is entitled to receive RMB65 million (approximately HK\$61,320,755) instead of RMB62.5 million (approximately HK\$58,962,264) as the JV Partner is prepared to pay to APHY the difference of RMB2.5 million (approximately HK\$2,358,491), being the Additional Consideration, to complete the Sale. The consideration for the Sale of RMB62.5 million (approximately HK\$58,962,264) was determined on an arm's length basis between the Company and the Purchaser and the payment of the Additional Consideration by the JV Partner to APHY was determined on an arm's length basis between the Company and the JV Partner.

*(ii) Jiangmen*

The Group also plans to sell the land because the Group does not intend to develop the land itself.

## **Overseas**

### *Beef Island, British Virgin Islands*

The Group owns a piece of land of approximately 640 acres in Beef Island, the British Virgin Islands. The Group has been in discussion and negotiation in using the property for different ventures, including converting it into a golf course with hotel facilities, or developing it into a marine city. The Group has also considered selling part of the land.

## **PLEDGE OF ASSETS**

At 30th June, 2003, the Group pledged its bank deposits, investment properties and property, plant and equipment amounting to HK\$3,219,000 (2002: HK\$4,702,000), HK\$73,920,000 (2002: HK\$135,120,000) and HK\$18,287,000 (2002: HK\$41,410,000), respectively, to secure general banking facilities granted to the Group.

## **LIQUIDITY AND FINANCIAL INFORMATION**

As at 30th June, 2003, the Group's total borrowings amounted to approximately HK\$168,254,000 with approximately HK\$132,783,000 repayable within one year, approximately HK\$5,913,000 repayable between one to two years, approximately HK\$8,179,000 repayable between two to five years and approximately HK\$21,379,000 repayable after five years. Bank balances and cash and deposits at 30th June, 2003 amounted to approximately HK\$48,146,000. The Group's current ratio is 0.58 (the current ratio was 1.00 as at 30th June, 2002) and the gearing ratio (a ratio of total liabilities and minority interests to shareholders' funds) is 1.90 (the gearing ratio was 1.08 as at 30th June, 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.

## **EMPLOYEE INFORMATION**

As at 30th June, 2003, 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.

## **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 Kin Sang, Raymond**  
*Chairman*

Hong Kong, 28th October, 2003