

Interim Report **2003/2004**

(for the six months ended 31st December)



Applied International Holdings Limited

(Incorporated in Bermuda with limited liability)



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 2003 were as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 31 DECEMBER 2003

	NOTES	Six months ended	
		31/12/03 (Unaudited) HK\$'000	31/12/02 (Unaudited) HK\$'000
Turnover	3	72,931	65,649
Cost of sales		<u>(54,588)</u>	<u>(54,125)</u>
Gross profit		18,343	11,524
Other revenue		1,048	282
Distribution costs		(1,795)	(1,793)
Administrative expenses		(26,347)	(27,175)
Interest income		583	1,107
Investment income		10	9
Impairment loss recognised in respect of properties under development		(24,482)	-
Impairment loss recognised in respect of investment properties		-	(48,292)
Loss on disposal of other securities		(6,176)	-
Gain on disposal of investment properties		1,496	-
Loss on disposal of plant and equipment		(835)	-
Impairment loss recognised in respect of other investment		-	(28,000)
Allowance on trade and other receivables		(1,920)	(7,100)
Allowance on inventory		(2,200)	(2,000)
Loss from operations		<u>(42,275)</u>	<u>(101,438)</u>
Finance costs		(4,146)	(3,862)
Loss before taxation	4	<u>(46,421)</u>	<u>(105,300)</u>
Taxation	5	-	-
Loss before minority interests		<u>(46,421)</u>	<u>(105,300)</u>
Minority interests		1,215	24,407
Loss for the period		<u>(45,206)</u>	<u>(80,893)</u>
Loss per share	6		
- Basic		<u>(4.80 cents)</u>	<u>(8.60 cents)</u>

**CONDENSED CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2003**

	NOTES	31/12/03 (Unaudited) HK\$'000	31/12/02 (Unaudited) HK\$'000
Non-current Assets			
Investment properties	7	99,820	147,787
Property, plant and equipment		259,788	298,423
Other securities		3,694	6,158
Other investments		22,170	38,145
Goodwill		660	880
Negative goodwill		(42,630)	(46,119)
		343,502	445,274
Current Assets			
Inventory		9,776	8,145
Trade and other receivables	8	48,103	71,264
Short-term loans receivable		2,188	28,046
Pledged bank deposits		3,229	3,207
Other time deposits		38,011	38,011
Bank balances and cash		19,186	13,353
		120,493	162,026
Less: Current Liabilities			
Trade and other payables	9	56,063	48,842
Tax payable		3,400	6,000
Bank borrowings – due within one year		101,172	108,724
Other borrowings – secured		20,093	1,930
Obligations under finance leases – due within one year		10,099	1,711
		190,827	167,207
Net Current Liabilities		(70,334)	(5,181)
		273,168	440,093



CONDENSED CONSOLIDATED BALANCE SHEET (Continued) AT 31 DECEMBER 2003

	NOTES	31/12/03 (Unaudited) HK\$'000	31/12/02 (Unaudited) HK\$'000
Capital and Reserves			
Share capital	10	188,216	188,216
Treasury shares		(12,546)	(12,546)
Reserves		(40,228)	84,889
		<u>135,442</u>	<u>260,559</u>
Minority interests		<u>105,024</u>	<u>120,824</u>
Non-current Liabilities			
Amount due to a minority shareholder		1,083	1,073
Bank borrowings – due after one year		28,923	49,950
Deferred taxation		383	647
Obligations under finance leases – due after one year		2,313	7,040
		<u>32,702</u>	<u>58,710</u>
		<u>273,168</u>	<u>440,093</u>



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited) FOR THE SIX MONTHS ENDED 31 DECEMBER 2003

	Share capital	Treasury shares	Shares premium account	Investment revaluation reserve	Investment property revaluation reserve	Capital redemption reserve	Capital Distributable reserve	Distributable reserve	Translation reserve	Deficit	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 July 2002	188,216	(12,546)	3	(14,598)	10,378	10,892	220,414	93,961	(3,093)	(142,488)	351,139
Exchange differences arising from translation of operations 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>188,216</u>	<u>(12,546)</u>	<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>260,559</u>
At 1 July 2003	188,216	(12,546)	3	(16,128)	-	10,892	220,414	93,961	(3,322)	(309,874)	171,616
Eliminated on disposal of other securities	-	-	-	8,598	-	-	-	-	-	-	8,598
Exchange differences arising from translation of operations outside Hong Kong	-	-	-	-	-	-	-	-	434	-	434
Net loss for the period	-	-	-	-	-	-	-	-	-	(45,206)	(45,206)
At 31 December 2003	<u>188,216</u>	<u>(12,546)</u>	<u>3</u>	<u>(7,530)</u>	<u>-</u>	<u>10,892</u>	<u>220,414</u>	<u>93,961</u>	<u>(2,888)</u>	<u>(355,080)</u>	<u>135,442</u>



**CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2003**

	31/12/03 HK\$'000	31/12/02 HK\$'000
Net cash outflow from operating activities	(10,579)	(18,511)
Net cash outflow from returns on investments and servicing of finance	(3,563)	(2,747)
Net cash inflow/(outflow) from investing activities	<u>30,421</u>	<u>(10,727)</u>
Net cash inflow/(outflow) before financing	16,279	(31,985)
Net cash inflow from financing	<u>3,800</u>	<u>4,307</u>
Increase/(decrease) in cash and cash equivalents	20,079	(27,678)
Cash and cash equivalents at beginning of the period	<u>36,351</u>	<u>60,941</u>
Cash and cash equivalents at end of the period	<u><u>56,430</u></u>	<u><u>33,263</u></u>



NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2003

1. BASIS OF PREPARATION

The unaudited condensed consolidated interim accounts ("interim accounts") are prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 25, "Interim Financial Reporting", issued by the Hong Kong Society of Accountants ("HKSA") and Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

2. PRINCIPAL ACCOUNTING POLICIES

In the current period, the Group has adopted SSAP 12 (Revised) "Income Taxes" issued by the HKSA, which is effective for the accounting period commencing on or after 1 January 2003. The SSAP 12 (Revised) principally prescribes the accounting treatment and disclosure for deferred tax. In prior years, deferred tax was accounted for at the current tax rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The SSAP 12 (Revised) requires that deferred tax be provided in full, using the liabilities method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred taxation is provided for temporary differences arising from investments in subsidiaries and associated companies, except where the timing of reversal of the temporary differences can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future. The adoption of SSAP 12 (Revised) had no material effect on the results for the current or prior accounting periods. Accordingly, no adjustments for prior accounting periods are required.



3. SEGMENT INFORMATION

Turnover represents the net amounts received and receivable for goods sold to outside customers and rental income from properties under operating leases during the year.

(a) Business segments

For management purposes, the Group is currently organised into three operating divisions - manufacture and distribution of electronic products, property and investment holding and manufacture and marketing of nano and herbal products. These divisions are the basis on which the Group reports its primary segment information.

Business segment information for the six months ended 31 December 2003:

	Manufacture and distribution of electronics products HK\$'000 (Unaudited)	Property and investment holding HK\$'000 (Unaudited)	Manufacture and marketing of nano and herbal products HK\$'000 (Unaudited)	Property development HK\$'000 (Unaudited)	Period ended 31 December 2003 Total HK\$'000 (Unaudited)
Turnover	<u>55,251</u>	<u>6,097</u>	<u>11,583</u>	<u>-</u>	<u>72,931</u>
Results					
Segment results	705	(13,860)	(3,632)	(26,732)	(43,519)
Unallocated corporate income					2,079
Unallocated corporate expenses					(835)
Loss from operations					(42,275)
Finance costs					(4,146)
Loss before taxation					(46,421)
Taxation					-
Loss before minority interests					<u>(46,421)</u>



3. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

Business segment information for the six months ended 31 December 2002:

	Manufacture and distribution of electronics products HK\$'000 (Unaudited)	Property and investment holding HK\$'000 (Unaudited)	Manufacture and marketing of nano and herbal products HK\$'000 (Unaudited)	Property Development HK\$'000 (Unaudited)	Period ended 31 December 2002 Total HK\$'000 (Unaudited)
Turnover	<u>60,259</u>	<u>5,327</u>	<u>63</u>	<u>-</u>	<u>65,649</u>
Results					
Segment results	(1,668)	(60,992)	(1,175)	(7,491)	(71,326)
Unallocated corporate income					1,398
Unallocated corporate expenses					<u>(31,510)</u>
Loss from operations					(101,438)
Finance costs					<u>(3,862)</u>
Loss before taxation					(105,300)
Taxation					<u>-</u>
Loss before minority interests					<u>(105,300)</u>



3. SEGMENT INFORMATION (Continued)

(b) Geographical segments

The Group's operations are located in Hong Kong, United States of America, Europe, the People's Republic of China other than Hong Kong (the "PRC") and other Asian countries.

The following table provides an analysis of the Group's sales by geographical markets irrespective of the origin of the goods or services:

	Turnover	
	For the six months ended 31 December	
	2003	2002
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
<u>Geographical segments:</u>		
Hong Kong	41,416	47,703
United States of America	14,765	11,409
Europe	54	408
PRC	7,673	3,199
Other Asian countries	9,023	2,930
	<u>72,931</u>	<u>65,649</u>



4. LOSS BEFORE TAXATION

	For the six months ended 31 December	
	2003	2002
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss before taxation has been arrived at after charging:		
Amortisation of goodwill (included in administrative expenses)	110	110
Depreciation and amortisation on		
– Assets owned by the Group	917	2,008
– Assets held under finance leases	724	225
and after crediting:		
Dividend income from listed securities	(10)	(9)
Gain on disposal of investment properties	(1,496)	–
Amortisation of negative goodwill	(1,163)	–

5. TAXATION

Hong Kong profits tax is calculated at the rate of 17.5% (2002: 16%) on the estimated assessable profits for the period.

No provision for Hong Kong profits tax was made for the period ended 31 December 2003 (2002: Nil) as the Company and its subsidiaries had no assessable profit for that period.

No provision for deferred tax has been made in respect of accelerated capital allowances as the Directors consider that no liability is expected to crystallise in the foreseeable future (2002: Nil).



6. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss attributable to shareholders of HK\$45,206,000 (2002: HK\$80,893,000) and on the weighted average of 941,080,745 (2002: 941,080,745) shares in issue during the period.

No diluted loss per share has been presented as the exercise price of the Company's outstanding warrants was higher than the average market price of the shares of the Company during both periods.

7. INVESTMENT PROPERTIES

	2003 (Unaudited) HK\$'000
VALUATION	
At 1 July 2003	107,680
Disposals	<u>(7,860)</u>
At 31 December 2003	<u><u>99,820</u></u>
NET BOOK VALUES	
At 31 December 2003	<u><u>99,820</u></u>
At 30 June 2003	<u><u>107,680</u></u>



7. INVESTMENT PROPERTIES (Continued)

The value of investment properties held by the Group comprises:

	2003 (Unaudited) HK\$'000
Held in Hong Kong:	
Long-term leases	71,600
Medium-term leases	2,920
Held outside Hong Kong:	
Medium-term leases	<u>25,300</u>
	<u><u>99,820</u></u>

8. TRADE AND OTHER RECEIVABLES

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

	31/12/03 (Unaudited) HK\$'000	31/12/02 (Unaudited) HK\$'000
Within due date	14,531	20,076
Overdue under 30 days	13,142	25,541
Overdue 31-60 days	10,694	18,166
Overdue over 60 days	<u>9,736</u>	<u>7,481</u>
	<u><u>48,103</u></u>	<u><u>71,264</u></u>



9. TRADE AND OTHER PAYABLES

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

	31/12/03 (Unaudited) HK\$'000	31/12/02 (Unaudited) HK\$'000
Within due date	15,545	12,258
Overdue under 30 days	17,922	11,597
Overdue 31-60 days	11,300	12,015
Overdue over 60 days	11,296	12,972
	<u>56,063</u>	<u>48,842</u>

10. SHARE CAPITAL

	Number of Ordinary shares	Amount HK\$'000
Ordinary shares of HK\$0.20 each		
Authorised:		
At 31 December 2002 and 31 December 2003	<u>2,000,000,000</u>	<u>400,000</u>
Issued and fully paid:		
At 31 December 2002 and 31 December 2003	<u>941,080,745</u>	<u>188,216</u>

11. 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 31 December 2003, 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.



12. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current period's presentation.

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 2003 amounted to approximately HK\$45,206,000, comparing to last period's loss of approximately HK\$80,893,000. Turnover for the six months ended 31 December 2003 was approximately HK\$72,931,000 compared to the turnover of approximately HK\$65,649,000 in the same period of last year, representing an increase of 11%.

INTERIM DIVIDEND

The Directors do not recommend payment of an interim dividend for the period ended 31 December 2003 (No interim dividend was recommended or paid for the period ended 31 December 2002).

REVIEW OF OPERATION AND PROSPECTS

The Group's turnover for the period ended 31 December 2003 was approximately HK\$73 million, which represented an increase of 11% as compared to the period ended 31 December 2002. The administrative expenses for the period ended 31 December 2003 were approximately HK\$26 million, which represented a decrease of 3% as compared to the expenses which were incurred for period ended 31 December 2002.

The unaudited consolidated loss for the period ended 31 December 2003 was approximately HK\$45 million (as compared to an unaudited consolidated loss of HK\$81 million for the period ended 31 December 2002.). This included an impairment loss recognised in respect of properties held for development of approximately HK\$24.5 million; allowance on trade and other receivables of approximately HK\$1.9 million and allowance on inventory of approximately HK\$2.2 million.



REVIEW OF OPERATION AND PROSPECTS (Continued)

Other losses incurred for the period were mainly due to the marketing costs spent in diversification of the Group's business into conducting and promoting network marketing business in Australia and the United States of America "USA".

OEM Business

During the period ended 31 December 2003, after the occurrence of SARS, the Group OEM manufacturing company, supported by a stable customer base, has generated steady income and can continue to keep its marketing share although 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 cost, conscious and focusing more on higher-growth products.

Properties Interest

The Peoples's Republic of China

(I) Dan Shui

On 20 October 2003, Applied Properties (Hui Yang) Limitd S.A. (herein known as "APHY"), a wholly-owned subsidiary of the Company, sold its 59% interest (the "Sale") in a joint venture company established by APHY and its JV Partner (the "JV Partner") which was established for purposes of developing a site at Dan Shui, PRC (the "Dan Shui Property"), to Zhejiang Se Fu Real Estate Development Co. Ltd. (the "Purchaser") for a consideration of approximately RMB62.5 million (approximately HK\$58,962,264). Pursuant to two supplemental agreements dated 20 October 2003, APHY is entitled to receive RMB65 million (approximately HK\$61,320,755) instead of RMB62.5 million (approximately HK\$58,962,264) the JV Partner is prepared to pay to APHY the difference of RMB2.5 million (approximately HK\$2,358,491), being an additional consideration of RMB2.5 million, 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.



REVIEW OF OPERATION AND PROSPECTS (Continued)

Properties Interest (Continued)

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 relation to the use of the property for different ventures, including converting it into golf course with hotel facilities, or developing it into a marine city. The Group has also considered selling part of the land.

During the period ended 31 December 2003, the British Virgin Island's Government considered that, due to a lack of meeting the development commitment, a 25% penalty could be imposed. Under the unfavourable local economic conditions, the fair value of the property is diminishing. Therefore, the Group has recognised an impairment loss of the property under development amounting to HK\$24.5 million.

Applied (China) Limited

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

ACL has also diversified its activities into property investment in both Hong Kong and the PRC.

On 1 December 2003, the Company entered into a deed in respect of the sale and purchase of shares in ACL (the "Sale and Purchase Deed") with Macro-Link International Investment Co, Ltd. (the "Offeror" or "Macro-Link International"). Macro-Link International conditionally agreed to acquire from the Company 861,887,920 ordinary shares of ACL (the "Sale Shares"), representing approximately 74.99% of the entire issued share capital of ACL for an aggregate consideration of HK\$123 million (offer price was equivalent to HK\$0.1427 per ACL share). The purchase price for the Sale Shares was determined by AIHL and the Offeror after arm's length negotiations. Completion was conditional upon the fulfilment or waiver of certain conditions. The disposal of the Sale Shares constituted a major transaction for the Company under the Listing Rules.



REVIEW OF OPERATION AND PROSPECTS (Continued)

Applied (China) Limited (Continued)

Upon Completion, the Offeror would be obliged under Rule 26 of the Takeovers Code to make unconditional cash offers to acquire all the issued ACL Shares and outstanding warrants of ACL (other than those already owned by the Offeror and parties acting in concert with it). Following and subject to Completion, Quam Securities Company Limited, on behalf of the Offeror, made mandatory unconditional cash offers on the terms and subject to the conditions as set out in the Offer Document to acquire all the ACL Shares (other than those already owned by the Offeror and parties acting in concert with it) at HK\$0.1427 per ACL Share and to acquire all the outstanding warrants of ACL (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it) at a cash price of HK\$0.001 per warrant.

Disposal

On 1 December 2003, ACL entered into the Disposal Agreement with AIHL pursuant to which, among other things, ACL disposed, and AIHL acquired, the iQuorum Cybernet Limited ("iQuorum") Sale Shares, representing the entire interest in iQuorum held by ACL. The Disposal constituted a discloseable and connected transaction for AIHL and a discloseable and connected transaction for ACL under the Listing Rules. It also constituted a special deal under Rule 25 of the Takeovers Code. Accordingly, the Disposal was conditional upon (a) the approval by the Independent ACL Shareholders; and (b) the approval by the shareholders of AIHL.

The Offer Document

As the making of the Offers were conditional upon Completion, the Offer Document was subject to the Executive's consent and was expected to be despatched to the shareholders and warrant holders of ACL in accordance with the Takeovers Code within 7 days following Completion.

The closing date of the Offers was at 4:00 p.m. on Wednesday, 3 March 2004. As at 4:00 p.m. on Wednesday, 3 March 2004, being the latest time and date for the acceptance of the Offers, the Offeror had received valid acceptances in respect of 292,361 Shares, in aggregate, under the Share Offer and valid acceptances in respect of 6,049,013 Warrants, in aggregate, under the Warrant Offer, representing approximately 0.025% of the issued share capital of the Company and approximately 5.26% of the total number of outstanding Warrants, respectively.



REVIEW OF OPERATION AND PROSPECTS (Continued)

Investment Properties

For the period ended 31 December 2003, the Group's rental properties contributed a revenue of HK\$6.1 million (as compared to HK\$5.3 million for the period ended 31 December 2002).

Multi-Level Marketing (Quorum Global Limited)

The Group has started Multi-Level Marketing ("MLM") business in April of 2002, however, the business is difficult as the Group only had unique Nano and herbal products. After 18 months of continued losses incurred by Quorum Global Limited and its subsidiaries ("QGL") in the USA and Australia, the Company decided to cease operation of the MLM business and promote the Nano and herbal products by selling them to department stores instead of to independent distributors.

PLEDGE OF ASSETS

At 31 December 2003, the Group pledged its time deposits, investment properties and a leasehold property amounting to approximately HK\$3.2 million (2002: HK\$3.2 million), HK\$73.9 million (2002: HK\$98.1 million) and HK\$18.3 million (2002: HK\$41.1 million), to secure general banking facilities granted to the Group.

LIQUIDITY AND FINANCIAL INFORMATION

At 31 December 2003, the Group's total borrowings amounted to approximately HK\$162.4 million with approximately HK\$131.3 million repayable within one year, approximately HK\$4 million repayable between one to two years, approximately HK\$8.8 million repayable between two to five years and approximately HK\$18.3 million repayable after five years. Cash, bank balances and deposits at 31 December 2003 amounted to approximately HK\$60.4 million. The Group's current ratio was 0.63 and the gearing ratio which is expressed as a ratio of total bank liabilities to total assets was 0.35.

The Group had no significant exposure to foreign exchange fluctuation.



CONTINGENT LIABILITIES AND CAPITAL COMMITMENT

At 31 December 2003, the Company issued guarantees of HK\$37,000,000 (2002: HK\$37,000,000) in respect of other loans granted to a subsidiary.

At 31 December 2003, the Group has the following capital expenditure:

	2003 HK\$'000 (Unaudited)	2002 HK\$,000 (Unaudited)
Capital expenditure contracted for but not provided for the financial statements in respect of acquisition of property, plant and equipment	<u>2,893</u>	<u>7,800</u>

The Group had no other contingent liabilities and capital commitments at the balance sheet date.

ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATES

Save and except for the events set out in the section headed "Applied (China) Limited", during the accounting period, there was no other material acquisition or disposal of the Company's subsidiaries and associates.

POST BALANCE SHEET EVENTS

The Company disposed all 861,887,920 ordinary shares of ACL to Macro-Link International, and acquired the entire issued share capital of iQuorum of HK\$51.4 million on 9 February 2004.

The name of ACL was changed from "Applied (China) Limited" to "Macro-Link International Holdings Limited" on 25 February 2004.



DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

At 31 December 2003, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), the Model Code for Securities Transactions by Directors of Listed Companies and which were required to be entered into the register required to be kept under section 352 of the SFO were as follows:

Name of directors	Number of ordinary shares			Number of underlying shares (warrants)		
	Personal interests	Other interests	Corporate interests	Personal interests	Other interests	Corporate interests
Hung Kin Sang, Raymond	3,280,000	405,655,584 (Note 1)	48,329,000 (Note 2)	560,000	81,131,116 (Note 1)	9,665,800 (Note 2)
Hung Wong Kar Gee, Mimi	8,870,056	405,655,584 (Note 1)	48,329,000 (Note 2)	1,774,011	81,131,116 (Note 1)	9,665,800 (Note 2)
Fang Chin Ping	100,000	-	-	20,000	-	-
Soo Hung Leung, Lincoln	1,100,000	-	-	220,000	-	-

DIRECTOR'S INTEREST IN SHARES OF ASSOCIATED CORPORATIONS

Name	Number of shares		Name of associated corporation	Total number of shares	Approximate % shareholding
	Beneficial	Other			
Fang Chin Ping	199,999	1 (Note 3)	Quorum Bio-Tech Limited (Note 3)	200,000	2%



DIRECTOR'S INTEREST IN SHARES OF ASSOCIATED CORPORATIONS (Continued)

Note 1: These shares and underlying shares were held by the following companies:

	Number of ordinary shares	Number of underlying shares (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
iQuorum Cybernet Limited ("iQuorum")	48,329,000	9,665,800

Malcolm Trading Inc., Primore Co. Inc. and Capita Company Inc. are wholly-owned by the Marami Foundation as trustee for the Raymond Hung/Mimi Hung & Family Trust, a discretionary trust the discretionary objects of which include the family members of Hung Kin Sang, Raymond and Hung Wong Kar Gee, Mimi (husband and wife).

Note 2: These shares and underlying shares were held by iQuorum Cybernet Limited which was a wholly-owned subsidiary of Applied (China) Limited. Applied (China) Limited, the shares of which are listed on the Stock Exchange, was a 74.99% owned subsidiary of the Company. As Capita Company Inc. owns more than one-third of the issued Shares and the underlying Shares of the Company and Capita Company Inc. is in turn a wholly-owned subsidiary of the Marami Foundation, the trustee of the Raymond Hung/Mimi Hung & Family Trust the discretionary objects of which include the family members of Hung Kin Sang Raymond and Hung Wong Kar Gee Mimi (husband and wife), both Hung Kin Sang Raymond and Hung Wong Kar Gee Mimi are deemed to be interested in such long positions.

Note 3: As at 31 December 2003, Fang Chin Ping held 200,000 ordinary shares of Quorum Bio-Tech Limited, a 89.00001% owned subsidiary of iQuorum, of which he holds 1 share on trust for iQuorum.



DIRECTOR'S INTEREST IN SHARES OF ASSOCIATED CORPORATIONS (Continued)

Save as disclosed above, at 31 December 2003, none of the Directors or chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), the Model Code for Securities Transactions by Directors of Listed Companies and which were required to be entered into the register required to be kept under section 352 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

(a) Share options in the Company

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 and any other share option schemes of the Company shall not exceed 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 a specifically identified single grantee under the 2002 Scheme and any other share option schemes of the Company shall not in any 12 month period exceed 1% of the shares of the Company in issue.



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 no less than the highest of (i) the closing price of the Company's shares 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 on the date of grant.

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

(b) Share options in ACL

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

At 31 December 2003, so far as is known to the Directors and the chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had an interest or short position in the shares and underlying shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name	Capacity	Number of Shares	Number of underlying Shares (warrants)	% shareholding
Malcolm Trading Inc.	Beneficial	43,992,883	8,798,576	5.6%
Capita Company Inc.	Beneficial	359,153,435	71,830,687	45.8%
Marami Foundation	Corporate	405,655,584 (Note 4)	81,131,116 (Note 4)	51.7%
iQuorum Cybernet Limited	Beneficial	48,329,000	9,665,800	6.2%

Note 4: Malcolm Trading Inc., Primore Co, Inc. and Capita Company Inc. are wholly-owned by the Marami Foundation as trustee for the Raymond Hung/Mimi Hung & Family Trust, a discretionary trust the discretionary objects of which include the family members of Hung Kin Sang, Raymond and Hung Wong Kar Gee, Mimi (husband and wife and who are both executive Directors).



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 period or at any time during the period.

Substantial shareholding in other members of the Group

At 31 December 2003, so far as is known to the Directors and the chief executive of the Company, the following persons (other than a Director or chief executive of the Company) are directly or indirectly interested in 5 per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group:

Name of Subsidiary	Name of Shareholder	% Shareholding
Sharp Win (Holdings) Limited	Hung Kin Nam, Ricky	48.9
Sharp Win Industrial Limited	Hung Kin Nam, Ricky	19.96
Wideland Electronics Limited	Fan Shek Yui	30
Wideland Electronics Limited	Ma Yi Fat	19

Save as disclosed above, the Directors and the chief executive of the Company are not aware of any person (other than a Director or chief executive of the Company) who, as at 31 December 2003, had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

EMPLOYEE INFORMATION

At 31 December 2003, the Group employed a total of 1,060 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.

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 2003.



AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for the Formation of an Audit Committee" published by the Hong Kong Society of Accountants.

The Audit Committee of the Company held a meeting on 25 March 2004 and reviewed the relevant interim financial statements and report of the Group for the six months ended 31 December 2003. The Committee was content that the accounting policies of the Group are in accordance with current best practice in Hong Kong. The Committee found no unusual items that were omitted from the financial statements and was satisfied with the disclosures of data and explanations shown in the financial statements.

The interim financial statements for the six months ended 31 December 2003 have not been audited by the Company's external auditors.

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.

The Company has also adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") and having made specific enquiry of all the Directors, the Directors have complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions.

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 period.

By Order of the Board
Hung Kin Sang, Raymond
Chairman

Hong Kong, 26 March 2004