

On behalf of the board of directors (the "Board") of MACRO-LINK International Holdings Limited (the "Company") together with its subsidiaries (collectively the "Group"), I have pleasure to present to you the annual report and the audited financial statement of the Group for the year ended 30 June 2004.

The Group's turnover for the year ended 30 June 2004 was approximately HK\$83.4 million, which represented an increase of 17.55% compared to the previous year. The administrative expenses for the year ended 30 June 2004 were approximately HK\$37.4 million, which represented a decrease of 1.67% from the expenses which was incurred last year.

The audited consolidated loss for the year ended 30 June 2004 was approximately HK\$44.2 million (for the year ended 30 June 2003: HK\$166.6 million).

DIVIDEND

The Directors do not recommend the payment of a final dividend for the year (2003:Nil).

CHANGE OF ULTIMATE HOLDING COMPANY

Sale and Purchase Deed

On 1 December 2003, Applied International Holdings Limited ("AIHL"), MACRO-LINK International Investment Co, Ltd. ("MLIICL") and Mr Hung Kin Sang, Raymond entered into a conditional deed (the "Sale and Purchase Deed") for, inter alia, the sale and purchase of 861,887,920 shares (the "Sale Shares") of HK\$0.01 each in the issued share capital of the Company (the "Share(s)"), representing approximately 74.99% of the then issued share capital of the Company and AIHL's entire interest therein. The total consideration for the Sale Shares was HK\$123 million, equivalent to approximately HK\$0.1427 per Share. The purchase price for the Sale Shares was determined by AIHL and MLIICL after arm's length negotiations. Completion was conditional upon the fulfilment or waiver of certain conditions, including, but not limited to, the Disposal (as defined below).

Disposal

On 1 December 2003, the Company entered into an agreement (the "Disposal Agreement") with AIHL pursuant to which, among other things, the Company agreed to dispose of, and AIHL agreed to acquire, the Company's entire interest in iQuorum Cybernet Limited (the "Disposal"). The Disposal constituted a discloseable and connected transaction of the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). It also constituted a special deal under Rule 25 of the Hong Kong Code on Takeovers (the "Takeovers Code"). Accordingly, the Disposal was conditional upon the approval by (a) the independent shareholders of the Company (i.e., shareholders of the Company other than MLIICL, and its associates and parties acting or presumed to be acting in concert with any of them) and (b) the shareholders of AIHL.

On 9 February 2004, the Disposal took place immediately prior to the completion of the Sale and Purchase Deed (the "Completion"), which also took place on the same day. Immediately after the Completion, MLIICL, together with parties acting in concert with it, were interested in approximately 74.99% of the issued share capital of the Company. Pursuant to Rule 26 of the Takeovers Code,

MLIICL and the parties acting in concert with it were obliged to make mandatory unconditional cash offers (the "Offers") to acquire all the issued Shares at a cash price of HK\$0.1427 per Share and all outstanding warrants of the Company (the "Warrant(s)") (other than those already owned by MLIICL and parties acting in concert with it) at a cash price of HK\$0.001 per Warrant.

Upon the closing date of the cash offer on 3 March 2004 and taking into account of the valid acceptances of the offer, MLIICL in aggregate interested in 862,180,281 Shares and 6,049,013 Warrants, representing approximately 75.02% of the issued share capital of the Company and approximately 5.26% of the total number of Warrants, respectively. With the view of complying with Rule 8.08 of the Listing Rules in respect of the minimum 25% public float requirement, MLIICL has disposed of 300,000 Shares on the market through its stock broker to the parties independent of the Directors, chief executives and substantial shareholders of the Company or any of its subsidiaries or their respective associates during the period from 31 March 2004 to 1 April 2004. As a result, MLIICL and the parties acting in concert with it were interested in 861,880,281 Shares in the Company, representing approximately 74.99% of the issued share capital of the Company.

Following the acquisition and the cash offer, the Company is now under the management of a new management team embracing experience and knowledge of manufacturing, trading, property development and management in the Mainland, and will strive to bring favourable profits for the shareholders of the Company.

CHANGE OF NAME

As the approval of the Registrar of Companies in Bermuda was obtained on 17 February 2004, the name of the Company has changed from "Applied (China) Limited" to "MACRO-LINK International Holdings Limited" and the Company has adopted the Chinese name "新華聯國際控股有限公司" for identification purpose on the same day.

REVIEW OF OPERATION AND PROSPECTS

Electronic Products

During the year, the business of Sharp Win Holdings Limited, a subsidiary of the Company engaged in the OEM of electronic keyboards and the trading of connectors used in personal computers, can continue to keep its marketing share due to the downturn of the global economy, after the occurrence of SARS and the sluggish sales in personal computers.

The Company has continued to diversify its products lines into other electronic products and has successfully established on OEM business with a leading conglomerate. The business has also implemented cost control measures to reduce cost. It has already picked up after the SARS event. With gradual rebound of the economy an improvement in sales of the products is expected.

Chinese Herbs Products

The Group has started manufacturing and marketing of Nano and Chinese herbal products in April 2002, however, the business is difficult as the Group only had unique Nano and herbal products. During the period under review, the Group continues its strategic direction by taking advantage of the sustained economic growth, the increase of elderly population and the substantial growth of healthcare products in China. The Group has established a research and development team to develop new products and strategic opportunity for the business.

The Group manufactured in Chinese herbal products, which include Lingzhi, Cordyceps, Yunzhi, and other fat reduction, and nutritional health herbs. We intend to promote these Chinese herbal products and sell them to healthcare distribution centres in China.

Some of the herbal products have been sold to the Group's parent company for overseas distribution via Quorum Global Limited during the year.

Investment Properties

After the changing of the ultimate holding company of the Group, the Company will focus on the business of manufacturing and trading of electronic products and healthcare products in PRC. Therefore, the investment properties of the Group were disposed to AIHL and completed on 10 February 2004 according to the Disposal Agreement dated 1 December 2003.

For the year ended 30 June 2004, the Group's rental properties contributed revenues of HK\$3.7 million (2003: HK\$6.6 million).

PROSPECT

The Group will continue to adhere to the strategy of maintaining balance exposure both in terms of new products and new business. By doing so, the Board believes it will help the Group to build a larger scale of economy. With the new management team embracing experience and knowledge of manufacturing and trading in the Mainland, we strongly believe that we have the necessary skills and expertise to enable us to explore potential investment opportunities that would offer higher returns to shareholders and enhance the Group's growth.

PLEDGE OF ASSETS

At 30 June 2004, the Group pledged its time deposits amounting to approximately HK\$3,237,000 (at 30 June 2003, the Group pledged its time deposits, investment properties and leasehold properties amounting to approximately HK\$3,219,000, HK\$71,000,000 and HK\$17,200,000 respectively) to secure general banking facilities granted to the Group.

LIQUIDITY AND FINANCIAL INFORMATION

As at 30 June 2004, the Group's total borrowings amounted to approximately HK\$19.6 million with approximately HK\$19.4 million repayable within one year, approximately HK\$0.2 million repayable between one to two years. Bank balances and deposits as at 30 June 2004 amounted to approximately HK\$83 million. The Group's current ratio was 3.02 and the gearing ratio which is expressed as a ratio of total liabilities and minority interests to shareholders' funds was 0.55. Bank balances and cash and deposits were held in Hong Kong dollars.

The Group had no significant exposure to foreign exchange fluctuations.

EMPLOYEE INFORMATION

As at 30 June 2004, the Group employed a total of 720 (2003: 450) full-time employees, mostly at the Group's subsidiary factories for manufacturing electronics and TCM herbal products. 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 schemes (as the case may be) to its employees depending on the location of such employees.

APPRECIATION

The Directors would take this opportunity 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

Fu Kwan
Chairman

Hong Kong, 27 September 2004