

During the year ended 30th June, 2004, Applied International Holdings Limited (the "Company", together with its subsidiaries collectively referred to as the "Group") embarked on a new strategic direction. The Group is not only concentrating on PRC OEM, investment properties holding but has also commenced development of a BVI property.

REVIEW OF OPERATIONS AND PROSPECTS

The audited consolidated profit attributable to shareholders of the Group for the year ended 30th June, 2004 amounted to approximately HK\$96,481,000 (compared to audited consolidated loss approximately HK\$167,386,000 for the year ended 30th June, 2003), which included the surplus on revaluation of investment properties of HK\$78,012,000, gain on disposal of subsidiaries of HK\$55,956,000 and gain on disposal of discontinued operations of HK\$8,797,000; deducting impairment loss recognised in respect of property, plant and equipment of HK\$6,000,000 and loss on disposal of other securities of HK\$7,755,000. Turnover for the year ended 30th June, 2004 was approximately HK\$104,070,000 (compared to the turnover of approximately HK\$125,866,000 for the year ended 30th June, 2003), representing a decrease of approximately 17.3%. The gross profit margin maintained at approximately 31.9% as compared to 24.8% for the year ended 30th June, 2003. The distribution, administrative and financing expenses for the year ended 30th June, 2004 amounted to approximately HK\$81.6 million, which represented a decrease of 7.7% from the expenses incurred in the preceding year.

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 of Hong Kong Limited (the "Stock Exchange").

On 1st 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") pursuant to which Macro-Link International acquired 861,887,920 ordinary shares of ACL (the "Sale Shares") from the Company, representing approximately 74.99% of the entire issued share capital of ACL for an aggregate consideration of HK\$123 million (which 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. The disposal of the Sale Shares constituted a major transaction for the Company under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

APPLIED (CHINA) LIMITED (Cont'd)

Following completion of the Sale and Purchase Deed, the Offeror made mandatory unconditional cash offers pursuant to Rule 26 of The Hong Kong Code on Takeovers and Mergers (the "Takeovers Code") to acquire all the issued shares of ACL ("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 (the "Offers").

Disposal

On 1st December, 2003, ACL entered into a disposal agreement with AIHL pursuant to which, among other things, ACL sold to AIHL its interest in the entire issued share capital of iQuorum Cybernet Limited (the "iQuorum Sale Shares"). The disposal of the iQuorum Sale Shares 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.

EXPIRY OF 2004 WARRANTS

The listing of 2004 Warrants (stock code: 744) carrying the right to subscribe for shares of HK\$0.20 each of the Company at the initial subscription price of HK\$0.48 per share was withdrawn after the close business on 30th April, 2004.

REDUCTION OF SHARE CAPITAL

During the year, the Company has put forward the following proposal (the "Proposal") to its shareholders to:

- (a) reduce the par value of each share in issue of the Company from HK\$0.20 to HK\$0.01 by cancelling the paid up capital to the extent of HK\$0.19 on each Share in issue (the "Capital Reduction") such that the par value of each issued share in the capital of the Company will be reduced to HK\$0.01 and the issued share capital of the Company of HK\$188,216,149 will be reduced by about HK\$178,805,342 to about HK\$9,410,807;
- (b) subdivide each of the authorised but unissued shares of HK\$0.20 each into 20 new shares of HK\$0.01 each ("New Shares");
- (c) reduce the authorised share capital of the Company from HK\$400,000,000 divided into 40,000,000,000 New Shares to HK\$60,000,000 divided into 6,000,000,000 New Shares;

REDUCTION OF SHARE CAPITAL (Cont'd)

- (d) reduce the entire amount standing to the credit of the Company's share premium account; and
- (e) transfer the credit arising from the Capital Reduction and the reduction in the Company's share premium account to the contributed surplus account of the Company and, upon transfer, to apply the same amount against the unaudited accumulated losses of the Company as at 31st December, 2003.

A circular containing details of the above Proposal together with notice of the relevant special general meeting was despatched to shareholders of the Company on 14th May, 2004. A special resolution approving the Proposal was passed on 16th June, 2004.

OEM BUSINESS

During the year ended 30th June, 2004, after the occurrence of SARS, the Group OEM manufacturing company, which is supported by a stable customer base, has generated steady income and was able to maintain its market share despite competitive market conditions. In order to maintain its competitiveness, the Group implemented a series of proactive measures with an aim to reallocating its resources by being cost-conscious and focusing more on higher-growth products.

INVESTMENT PROPERTIES

For the year ended 30th June, 2004, the Group's rental properties contributed a revenue of HK\$10.2 million (as compared to HK\$10.6 million for the year ended 30th June, 2003).

MULTI-LEVEL MARKETING (Quorum Global Limited)

The Group 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 independent distributors.

PROPERTY INTEREST

The People's Republic of China

(i) *Dan Shui*

Pursuant to a sale and purchase agreement dated 20th October, 2003 (the "Sale and Purchase Agreement") entered into between Applied Properties (Hui Yang) Limited S.A. ("Applied Hui Yang"), (a wholly-owned subsidiary of the Company) and Zhejiang Se Fu Real Estate Development Co. Ltd. ("Zhejiang"), inter alia, Applied Hui Yang sold its 59% interest in Sun City Development (Danshui) Ltd. (an equity joint venture established in the PRC, which was owned as to 60% by Applied Hui Yang and 40% by a joint venture partner, and which was established for purposes of developing a site in Dan Shui in the PRC) to Zhejiang for a consideration of approximately RMB62.5 million (approximately HK\$58,962,264) (at the rate of RMB1.06 to HK\$1.00). Pursuant to two supplemental agreements to the Sale and Purchase Agreement, both dated 20th October, 2003 (the "Supplemental Agreements"), Applied Hui Yang was entitled to receive RMB65 million (approximately HK\$61,320,755) instead of RMB62.5 million (approximately HK\$58,962,264) as the joint venture partner was prepared to pay to Applied Hui Yang the difference of RMB2.5 million (approximately HK\$2,358,491), being the additional consideration, to complete the sale. The consideration under the Sale and Purchase Agreement of RMB62.5 million (approximately HK\$58,962,264) was determined on an arm's length basis between the Company and Zhejiang and the additional consideration under the Supplemental Agreements was determined on an arm's length basis between the Company and the joint venture partner.

(ii) *Jiangmen*

Pursuant to a share transfer agreement dated 9th September, 2004 (the "Share Transfer Agreement") entered into between, among others, the Company, Applied China Properties Limited ("Applied Properties") (a wholly-owned subsidiary of the Company) and Mr. Lai Kwok Wah ("Mr. Lai"), inter alia, Applied Properties conditionally agreed to sell to Mr. Lai 2 shares of US\$100 each in Applied Properties (Jiang Men) Ltd. S.A. ("Applied Jiangmen"), representing the entire issued share capital of Applied Jiangmen (the "Jiangmen Shares"). Applied Jiangmen held a piece of land situated in Jiangmen, PRC through its interest in 江門實力發展(地產)有限公司. Pursuant to the Share Transfer Agreement, Applied Properties also agreed to assign to Mr. Lai its entire legal and beneficial interest in loans which it extended to Applied Jiangmen which amounted to an outstanding aggregate sum of HK\$24,411,291 as at 8th September, 2004, which is unsecured, non-interest bearing and repayable on demand (the "Shareholder's Loan"). The consideration payable by Mr. Lai pursuant to the Share Transfer Agreement is RMB15,000,000 (approximately HK\$14,136,940) (adopting an exchange rate of RMB1.06105 to HK\$1.00) of which RMB14,998,400 (approximately HK\$14,135,432) is attributable to the assignment of the Shareholder's Loan and RMB1,600 (approximately HK\$1,508) is attributable to the sale of the Jiangmen Shares.

PROPERTY INTEREST (Cont'd)**The People's Republic of China (Cont'd)***(ii) Jiangmen (Cont'd)*

The Directors are of the view that the consideration is fair and reasonable in light of the current market conditions in the PRC and, in particular, the illiquidity of the Jiangmen property market. The sale and the loan assignment are on normal commercial terms and are in the best interests of the Company and its shareholders as a whole as the cash raised from the sale and the loan assignment will improve the Company's liquidity and increase the funds available for general working capital.

(iii) Sheung Ping

Pursuant to a sale and purchase agreement dated 23rd September, 2004 entered into between RJP International Limited ("RJP"), a wholly-owned subsidiary of the Company, and 東莞市常平鎮土塘村委會 ("Sheung Ping Committee"), a governmental organisation established in Sheung Ping, PRC, inter alia, RJP agreed to sell, or procure the sale of, and Sheung Ping Committee agreed to purchase, a piece of land situated at Tutang District, Sheung Ping Town, Dongguan, PRC, together with factory buildings and staff quarters constructed thereon and which is 100% beneficially owned by Dongguan Incar Electronics Co., Ltd. and Dongguan Man Lee Plastic Products Co., Ltd. (both indirect wholly-owned subsidiaries of the Company) (the "Sheung Ping Property") for an aggregate consideration of RMB22,200,000 (approximately HK\$20,923,657) (adopting an exchange rate of RMB1.061 to HK\$1.00).

Completion of the sale is conditional on approval of the sale and purchase agreement and the transactions contemplated thereunder by shareholders of the Company in a general meeting. Completion is to take place on 1st January, 2005 when RJP shall deliver, or procure the delivery of, the Sheung Ping Property to Sheung Ping Committee on the existing condition without modification or subject to tenancy (as the case may be).

The consideration was determined after arms' length negotiations between the parties to the sale and purchase agreement and by reference to the prevailing market rates for similar land and properties in the Sheung Ping area.

The proceeds from the Sale will be used for general working capital of the Company.

PROPERTY INTEREST (Cont'd)

Overseas

Beef Island, British Virgin Islands

The Group owns a piece of land of approximately 640 acres in Beef Island, the British Virgin Islands ("BVI") which it intends to develop jointly with a partnership of the Beef Island into a 18 holes champions golf course; 150 berth Marina, Marina Village and residential resort.

Beef Island Development Plan:

Unique golf course, hotel and Marina in one Beef Island location:

- (a) 18 holes Signature golf course & club house.
- (b) 5-Star hotel (120 to 150 rooms).
- (c) Golf residential & Trellis Bay commercial.
- (d) Mt. Alma residential sites.
- (e) Marina Bay residential & Marina Village.
- 18 holes Jack Nicklaus Signature golf course & club house.

Mr. Jack Nicklaus will design a Signature Golf Course, including preparation of all plans, specifications and drawing that are necessary to illustrate the course layout, design features and construction methods. The plan documents will consist of a general strategy plan, a clearing plan, contour plans, a conceptual golf course drainage plan, a grassing plan, a bunker study plan and a conceptual landscape plan.

Mr. Jack Nicklaus will advise on the letting of construction contracts for construction of the golf course and reviewing contractors' implementation of the plan documents.

The Group is allowed to use the intangible Marketing Rights & Services of Jack Nicklaus to advertise, publicize and market our golf course & BVI.

Mr. Jack Nicklaus will design the preliminary golf course Plan and will attend the charette brainstorming section, with all parties concerned to fully develop the Master Plan for BVI Government approval.

PROPERTY INTEREST (Cont'd)**Overseas (Cont'd)***Beef Island Development Plan: (Cont'd)*

– 5-Star Hotel

A 5-Star hotel consisting of 120-150 guest rooms, beach, swimming pool, meeting rooms. The hotel and amenities will be carefully designed to blend in with the natural beauty and environment.

The hotel, besides providing its own private and exclusive amenities, will profit from its association with Jack Nicklaus (Signature golf course and its clubhouse, also the adjacent development of Yacht Club Marina and Marina Village with their many activities such as restaurants and sidewalk cafes, fishing, snorkelling, tennis, visit to nearby Island and beaches).

The Company has begun discussion in relation to a possible joint venture.

– Golf residential & Trellis Bay commercial; Mt. Alma residential sites.

The Company will report more once it has finalised the Master Development Plan "Plan is underway".

– Marina Bay residential & Marina Village

Beef Island is the finest location in the British Virgin Islands for a Marina because of its location in the heart of Sir Francis Drake Channel's famous sailing waters and because it is very accessible. Our objective is to develop an important yachting and chartering center containing 150 to 200 berths, with a specialized mega yacht facility. The Marina will also be a center for important sport fishing activities of the islands.

The southern aspect of Bluff Bay provides a sheltered location and is presently zoned for the Marina and comprises a small headland and a waterfront strip of land between the highwater mark and a salt pond to the rear. The crescent shaped beach abuts sheltered waters protected by a small, off-shore reef.

The Centre of activity will be in Marina Village having docks, shopping arcade, shady plazas, bridges, fountains, bandstand. The central dockside area will contain townhouse, villas and condos, as well as restaurants, sidewalk cafe, boutiques and businesses.

Build in stages with residential Villages, activity areas, parks and natural open space. Also planned are a tennis club, parade grounds, health spa, Getting Married chapel. ATM, a very famous Marina Bay Design/Coastal Engineering Firm, will be assigned to develop the engineering architecture plan the Marina. They'll do feasibility studies and advise us in more details.

PROPERTY INTEREST (Cont'd)

Overseas (Cont'd)

Beef Island Development Plan: (Cont'd)

Of increasing importance is the growth of the mega-yacht industry with over 500 mega-yachts currently under construction throughout the world. The creation of a marina on the Estate world complement the hotel and golf course facilities and establish Trellis Bay Estate as one of the leading multi-use resorts in the Caribbean.

- Great walking trails up to the top of Mount Alma from Quaker ruins which will be refurbished as a historical visitors' site.

PLEDGE OF ASSETS

At 30th June, 2004, the Group pledged its investment properties and property, plant and equipment amounting of HK\$174,420,000 (2003: HK\$73,920,000) and HK\$2,616,048 (2003: HK\$18,287,000), respectively, to secure general banking facilities granted to the Group. At 30th June, 2003, the Group also pledged its fixed deposits of HK\$3,219,000.

POST BALANCE SHEET EVENTS

On 16th October, 2003, the Group entered into an agreement to dispose of its 59% equity interest in a subsidiary at a consideration of HK\$61 million. The transaction has not yet completed up to balance sheet date.

On 9th September, 2004, the Group entered into an agreement to dispose of its 100% equity interest in a subsidiary Applied Properties (Jiang Men) Limited S.A. at a consideration of RMB15 million (approximately HK\$14 million).

On 23rd September, 2004, the Group entered into another agreement to dispose of certain of its investment properties in the PRC at a consideration of RMB22,200,000 (approximately HK\$21 million).

Details of the transactions have been stated in "PROPERTY INTEREST" of this statement.

LIQUIDITY AND FINANCIAL INFORMATION

As at 30th June, 2004, the Group's total borrowings amounted to approximately HK\$82,845,000 with approximately HK\$49,798,000 repayable within one year, approximately HK\$5,674,000 repayable between one to two years, approximately HK\$8,549,000 repayable between two to five years and approximately HK\$18,824,000 repayable after five years. Bank balances and cash and deposits at 30th June, 2004 amounted to approximately HK\$4,755,000. The Group's current ratio is 0.25 (the current ratio was 0.58 as at 30th June, 2003) and the gearing ratio (a ratio of total liabilities and minority interests to shareholders' funds) is 0.72 (the gearing ratio was 1.90 as at 30th June, 2003). 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.

EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

The Group does not engage in interest rate or foreign exchange speculative activities. It is the Group's policy to manage foreign exchange risk through matching foreign exchange income with expense, and where exposure to foreign exchange is anticipated, appropriate hedging instrument will be used.

EMPLOYEE INFORMATION

As at 30th June, 2004, the Group employed a total of 342 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.

AUDIT COMMITTEE

The Audit Committee of the Company has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including a review of the audited financial report.

CORPORATE GOVERNANCE

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the year ended 30th June, 2004.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Code of Conduct regarding securities transactions by directors as set out in Appendix 10 to the Listing Rules during the relevant accounting period and all directors have complied with the required standard of dealings set out therein.

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, 27th October, 2004