



# APPLIED INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

## INTERIM RESULTS For the six months ended 31 December 2002

### INTERIM REPORT

The Board of Directors (the "Directors") of Applied International Holdings Limited (the "Company") announce the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 31 December 2002 as follows:

		Six months ended	
	Notes	31/12/02 (unaudited) HK\$'000	31/12/01 (unaudited) HK\$'000
Turnover	2	65,649	111,032
Cost of sales		(54,125)	(94,401)
Gross profit		11,524	16,631
Other revenue		282	-
Distribution cost		(1,793)	(2,138)
Administrative expenses		(27,175)	(24,318)
Investment income		9	-
Interest income		1,107	74
Loss on disposal of investment properties		-	(410)
Impairment loss recognised in respect of investment properties		(48,292)	-
Impairment loss recognised in respect of other investment		(28,000)	-
Allowance on trade and other receivables		(7,100)	-
Allowance on inventory		(2,000)	-
Loss from operations		(101,438)	(10,161)
Finance costs		(3,862)	(2,995)
Loss on disposal of subsidiaries		-	(49)
Goodwill arising on acquisition of subsidiary		-	54
Loss before minority interests		(105,300)	(13,151)
Minority interests		24,407	2,691
Loss for the period	3	(80,893)	(10,460)
Loss per share	4		
- Basic		(8.60 cents)	(1.11 cents)

### Notes:

#### 1. ACCOUNTING POLICIES

The unaudited condensed financial reports have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 25, "Interim Financial Reporting", issued by the Hong Kong Society of Accountants ("HKSA"), and the disclosure requirements set out in Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

#### 2. SEGMENT INFORMATION

The Group's turnover and loss from operations for the six months ended 31 December 2002 analysed by product category, are as follows:

	Turnover for the six months ended 31 December		Loss from operations for the six months ended 31 December	
	2002	2001	2002	2001
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
By principal activity:				
Trading and manufacture of Electronic products	60,259	105,437	(1,668)	2,978
Trading of nano and herbal products	63	-	(1,175)	-
Rental income	5,327	5,595	(3,717)	2,434
	<u>65,649</u>	<u>111,032</u>	<u>(6,560)</u>	<u>5,412</u>
Interest income			1,107	74
Other income			291	-
Other expenses			(96,278)	(15,647)
Loss from operations			<u>(101,438)</u>	<u>(10,161)</u>
By geographical area:				
Hong Kong	47,703	87,456		
Mainland China	3,199	4,359		
Other Asian countries	2,930	1,636		
Europe	408	6,286		
United States of America	11,409	11,295		
	<u>65,649</u>	<u>111,032</u>		

#### 3. LOSS FOR THE PERIOD

Of the Group's loss for the period, a loss of HK\$80,893,000 (2001: loss of HK\$10,460,000) has been dealt with in the financial statements of the Company.

#### 4. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss attributable to shareholders of HK\$80,893,000 (2001: loss of HK\$10,460,000) and on the weighted average of 941,080,745 (2001: 941,080,745) shares in issue during the period.

### 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 2002 amounted to approximately HK\$80,893,000 (compared to approximately HK\$80,893,000 for the period ended 31 December 2001), which included the loss of approximately HK\$85,392,000 (compared to approximately HK\$85,392,000 for the period ended 31 December 2001) investment properties of HK\$48,292,000, other investment of HK\$28,000,000, trade and other receivables of HK\$7,100,000 and inventory of HK\$2,000,000, and HK\$85,392,000, attributable from Applied (China) Limited, a 74.99% owned subsidiary of the Company, the shares of which shares are listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange"). Turnover for the period ended 31 December 2002 was approximately HK\$65,649,000 (compared to the turnover of approximately HK\$111,032,000 for the period ended 31 December 2001), representing a decrease of approximately 41%. The gross profit margin maintained at approximately 17.6% as compared to 15% for the period 31 December 2001. The distribution, administrative and financing expenses for the period ended 31 December 2002 amounted to approximately HK\$32.8 million, which represented an increase of 11.5% from the expenses incurred in the preceding period.

### INTERIM DIVIDEND

The Directors do not recommend payment of a dividend for the period ended 31 December 2002 (No dividend was recommended or paid for the period ended 31 December 2001).

During the period under review, Applied International Holdings Limited (the "Company"), together with its subsidiaries hereinafter referred to as the "Group" began on a new strategic direction and adopted a new approach to marketing and distribution of a series of nano and Chinese herb products.

### REVIEW OF OPERATIONS AND PROSPECTS

The unaudited consolidated loss attributable to shareholders of the Group for the period ended 31 December 2002 amounted to approximately HK\$80,893,000 (compared to approximately HK\$80,893,000 for the period ended 31 December 2001), which included the loss of approximately HK\$85,392,000 (compared to approximately HK\$85,392,000 for the period ended 31 December 2001) investment properties of HK\$48,292,000, other investment of HK\$28,000,000, trade and other receivables of HK\$7,100,000 and inventory of HK\$2,000,000, and HK\$85,392,000, attributable from Applied (China) Limited, a 74.99% owned subsidiary of the Company, the shares of which shares are listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange"). Turnover for the period ended 31 December 2002 was approximately HK\$65,649,000 (compared to the turnover of approximately HK\$111,032,000 for the period ended 31 December 2001), representing a decrease of approximately 41%. The gross profit margin maintained at approximately 17.6% as compared to 15% for the period 31 December 2001. The distribution, administrative and financing expenses for the period ended 31 December 2002 amounted to approximately HK\$32.8 million, which represented an increase of 11.5% from the expenses incurred in the preceding period.

The significant loss for the period ended was attributable to the setting up of sales offices in Australia and the United States 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 in the period under review. The Group's results were also affected by expenses in the research and development of the Group's products.

### MULTI-LEVEL MARKETING (QUORUM GLOBAL LIMITED)

Our Group intends to re-commence Multi-Level Marketing (MLM) business through our subsidiary Quorum Global Limited ("Quorum Global"). Sales offices have been set up in the USA and Australia to conduct and promote MLM business. A back-end office will be set up in Shenzhen, China to process order entry, customer services, technical support, management information, accounting, warehousing and international despatch and logistics services to reduce our operational costs.

Our Mission is to promote optimal health and to enhance life through our dynamic natural health products.

Quorum Global is at the forefront in combining past knowledges and advanced biomedical research results from NanoScience knowledge and laboratories.

We modernise Traditional Chinese Medicines (TCM) which has a long history by standardizing herbal supplements. The result enhances health of human beings.

We also embrace an advanced form of scientific engineering called Nano Technology and NanoScience. Nano Technology and NanoScience provide us with exclusive ceramic compounds that can be fused, woven and blended into other materials. These materials are then formed and patterned into innovative personal healthcare products for passive alternative health benefits.

With the introduction of both herbal and nano products, the Company has initiated sales and marketing in the USA and Australia. From the San Francisco, California office - Quorum Global will expand throughout North America into selected markets in Central and South America. From the Sydney, Australia office - Quorum Global will divert into other selected Asia-Pacific markets.

In the future the Company also plans to expand into the European Union (EU) markets, and will select appropriate Western and Eastern European countries.

To help ensure the Company's success, Quorum Global has developed an experienced management team.

In Hong Kong, the Company has built a team of professional administrative, financial and IT management staff.

Quorum Global has also retained well-trained and motivated support staff under the management in different markets.

### APPLIED (CHINA) LIMITED

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

ACL has also diversified its activities into properties 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 over the period under review 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 high growth products.

### PROPERTIES INTEREST

#### The People's Republic of China

##### (i) Dan Shui

A joint venture contract has been entered into between Royal Dutch Shell Group, a multinational petrochemical giant and China National Offshore Oil Corp, whereby they have agreed to build a petrochemical complex ("Joint Venture") to produce high quality petrochemical products in Huizhou, Guangdong. It is expected that the Joint Venture would attract large numbers of local and overseas investors to the area, and would result in the rapid development in industries like Huizhou is located the construction, finance, hotel, recreations and services, and will increase the working population in the area by an addition of 1.2 million people.

The Group owns a piece of land of approximately 730,000 sq.m. in Central Dan Shui, Guangdong, and another piece of land of 1.5 acres in the old town district of Dan Shui. It has recently been announced that Huizhou situated close to the land owned by the Group. The Group's properties have been designated by the state government for residential and commercial usages to support the expected growth in population in the area as a result of the Joint Venture. After the Joint Venture was announced, the value of land in the area has increased. The Directors believe the demand for land in the area will continue to increase in the future. The Group intends to develop the properties in pace with the development and production schedule of the Joint Venture. In view of the benefits which are expected to be derived from the Joint Venture, the Directors expect a good future for the Group's property interest in Dan Shui.

##### (ii) Jiangmen

The Group has submitted a plan to develop a piece of 1 million sq ft land owned by the Group in Jiangmen, which is located near a train station and highway, for the relevant authority's approval. The Group will start selling the land after approval is obtained because the Group does not intend to develop the land itself. Getting the approval will improve the value and the chance of selling the land.

### Overseas

#### Beef Island, the British Virgin Islands

The Group owns a piece of land of approximately 682 acres in Beef Island, the British Virgin Islands. Beef Island is expected have direct flights from New York, Florida and other major cities in the United States by the end of this year. The Group has been in discussion and negotiation in using the property for different ventures, including to convert it into a golf course with hotel facilities, or to develop it into a marine city. The Group has also considered selling it. No decision has been made, but the Group expects that the value of the property will increase in view of the likely developments in the area in the near future.

### LIQUIDITY AND FINANCIAL INFORMATION

As at 31 December 2002, the Group's total borrowings amounted to approximately HK\$169,355,000 with approximately HK\$112,365,000 repayable within one year, approximately HK\$24,000,000 repayable between one to two years, approximately HK\$7,300,000 repayable between two to five years and approximately HK\$25,690,000 repayable after five years. Bank balances and cash and deposits at 31 December 2002 amounted to approximately HK\$54,571,000. The Group's current ratio is 0.94 (the current ratio was 0.71 as at 31 December 2001) and the current gearing ratio (a ratio of total bank liabilities to total assets) is 0.28 (the gearing ratio was 0.16 as at 31 December 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.

### ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATES

During the period, there was no material acquisition or disposal of the Company's subsidiaries and associates.

### EMPLOYEE INFORMATION

As at 31 December 2002, 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.

### 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 2002.

### AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed on auditing, internal controls and financial reporting matters including the review of the unaudited interim financial statements.

### CODE OF BEST PRACTICE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not or was not for any part of the accounting period covered by this interim report, in compliance with the Code of Best Practice set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited.

### PUBLICATION OF INTERIM RESULTS ON THE STOCK EXCHANGE'S WEBSITE

The 2002 Interim Report of the Company containing all the information of the interim results of the Group for the period ended required by paragraphs 45(1) to 45(3) inclusive of Appendix 16 to the Listing Rules will be published on the website of the Stock Exchange in due course.

### APPRECIATION

I would like to extend my heartfelt gratitude to my fellow directors and colleagues for their dedication and contribution towards the ambition of the Group throughout the period. I would also like to take this opportunity to express my appreciation to our shareholders, investors and financiers for their continual belief in the Company and our strategy for the future. We will endeavour to explore every potential opportunity for business growth, creating a promising future and better results in the years ahead.

By order of the Board  
Hung Kin Sang, Raymond  
Chairman

Hong Kong, 25 March 2003