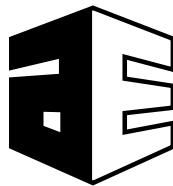

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Applied International Holdings Limited (the “Company”), you should at once hand this circular with the accompanying proxy form to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



APPLIED INTERNATIONAL HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

DISCLOSEABLE AND CONNECTED TRANSACTION

**UNDERWRITING OF AND PARTICIPATION IN
A PROPOSED RIGHTS ISSUE OF
NEW SHARES BY APPLIED (CHINA) LIMITED**

Independent financial adviser to the Independent Board Committee



HANTEC CAPITAL LIMITED

A notice convening a special general meeting of Applied International Holdings Limited to be held at The Oregon Room, The American Club, 47th Floor, Two Exchange Square, No. 8 Connaught Place, Central, Hong Kong on Thursday, 4th April, 2002 at 10:00 a.m. is set out on pages 23 to 24 of this circular. Whether or not you intend to be present at the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and deposit with the Company’s Hong Kong branch share registrar, Central Registration Hong Kong Limited, at 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM should you so desire.

19th March, 2002

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RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts not contained in this circular, the omission of which would make any statement herein misleading.

DEFINITIONS

In this circular (other than in the notice of the SGM), the following expressions have the meanings respectively set opposite them unless the context otherwise requires:

“ACL”	Applied (China) Limited, a company incorporated in Bermuda with limited liability and the securities of which are listed on the Stock Exchange
“ACL Group”	ACL and its subsidiaries
“ACL Qualifying Shareholders”	shareholders of ACL whose names appear on the register of members of ACL at the close of business on Thursday, 4th April, 2002, other than those shareholders of ACL whose addresses, as shown in the register of members of ACL at the close of business on that date, are outside Hong Kong
“ACL Share(s)”	share(s) of HK\$0.01 each in the share capital of ACL
“ACL Warrant(s)”	warrant(s) issued by ACL which entitle the holders to subscribe for one fully-paid ACL Share for every warrant they hold at the subscription price of HK\$1.00 (subject to adjustment) at any time between 20th December, 2001 and 30th April, 2004
“Applied Electronics”	Applied Electronics Limited, a wholly-owned subsidiary of the Company
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Batimate”	Batimate Limited, a wholly-owned subsidiary of the Company
“Board”	board of Directors
“business day”	a day (excluding Saturday) on which banks are open for business in Hong Kong
“Company”	Applied International Holdings Limited, a company incorporated in Bermuda with limited liability and the securities of which are listed on the Stock Exchange
“Controlling Shareholders”	the controlling shareholders of ACL, being the Company, Batimate and Applied Electronics

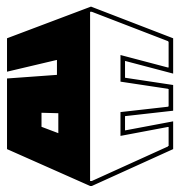
DEFINITIONS

“Director(s)”	director(s) of the Company
“Group”	the Company and its subsidiaries
“Hantec”	Hantec Capital Limited, an investment adviser registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) and the independent financial adviser to the Independent Board Committee
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board comprising Mr. Lun Tsan Kau and Mr. Lo Yun Tai formed to advise the Shareholders on the Underwriting Agreement and the participation in the Rights Issue
“Last Trading Day”	26th February, 2002, being the last trading day before the suspension of the trading of the shares and warrants of ACL and the Company on the Stock Exchange pending the publication on 28th February, 2002 of the Company's joint announcement with ACL dated 27th February, 2002 in respect of, amongst other things, the proposed Rights Issue
“Latest Practicable Date”	15th March, 2002, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China but, for the purpose of this circular, excluding Hong Kong
“Rights Issue”	the rights issue of ACL Shares as more particularly described in the section headed “Rights Issue and Underwriting Agreement” of this circular
“Rights Share(s)”	new ACL Share(s) to be allotted and issued pursuant to the Rights Issue
“SDI Ordinance”	the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong)

DEFINITIONS

“SGM”	the special general meeting of the Company to be held on Thursday, 4th April, 2002, the notice of which is set out on pages 23 to 24 of this circular
“Share(s)”	ordinary share(s) of HK\$0.20 each in the share capital of the Company
“Share Option Scheme”	the share option scheme of the Company adopted on 28th May, 1997
“Shareholder(s)”	holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Underwriting Agreement”	the agreement dated 26th February, 2002 entered into between the Controlling Shareholders and ACL in relation to the underwriting and certain other arrangements in respect of the Rights Issue
“Warrant(s)”	warrant(s) issued by the Company which entitle the holders to subscribe for one fully-paid Share for every warrant they hold at the subscription price of HK\$0.48 (subject to adjustment) at any time between 4th May, 2000 and 30th April, 2004
“Warrantholder(s)”	holder(s) of the Warrant(s)
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

LETTER FROM THE BOARD



APPLIED INTERNATIONAL HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

Executive Directors:

Hung Kin Sang, Raymond
(Chairman and Managing Director)
Hung Wong Kar Gee, Mimi
Fang Chin Ping

Registered office:

Cedar House
41 Cedar Avenue
Hamilton HM 12
Bermuda

Non-executive Director:

Soo Hung Leung, Lincoln

Head office and

principal place of business:
41st Floor
Far East Finance Centre
16 Harcourt Road
Central
Hong Kong

Independent non-executive Directors:

Lun Tsan Kau
Lo Yun Tai

19th March, 2002

*To the Shareholders and, for information only,
the Warrantholders*

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION

UNDERWRITING OF AND PARTICIPATION IN A PROPOSED RIGHTS ISSUE OF NEW SHARES BY APPLIED (CHINA) LIMITED

INTRODUCTION

In a joint announcement with ACL dated 27th February, 2002, the Board announced amongst other things that the Company had entered into the Underwriting Agreement pursuant to which it had conditionally agreed to underwrite the Rights Issue as well as undertaken to accept or procure acceptance of its provisional entitlement of the Rights Issue. The purpose of this circular is to give you further information on the discloseable and connected transaction and to convene the SGM to consider, and if thought fit, to approve the Underwriting Agreement.

LETTER FROM THE BOARD

RIGHTS ISSUE AND UNDERWRITING AGREEMENT

As at the Latest Practicable Date, the Company was, directly and indirectly, interested in 319,190,517 ACL Shares, representing approximately 55.55% of ACL's existing issued share capital.

The Controlling Shareholders entered into the Underwriting Agreement with ACL on 26th February, 2002. The main terms of the Rights Issue are as follows:

Basis of the Rights Issue:	one Rights Share for every existing ACL Share payable in full on acceptance, to be provisionally allotted to the ACL Qualifying Shareholders
Number of Rights Shares:	not less than 574,630,910 Rights Shares
Number of Rights Shares proposed to be underwritten:	not less than 255,440,393 Rights Shares. Each of the Controlling Shareholders has also undertaken to accept or procure acceptance of its provisional entitlement of the Rights Issue, being an aggregate of 319,190,517 Rights Shares
Estimated proceeds of the Rights Issue:	approximately HK\$42 million, before expenses
Price for each Rights Share:	HK\$0.073, representing (i) a discount of 27.00% to the closing price of HK\$0.10 per ACL Share as quoted on the Stock Exchange on the Last Trading Day; (ii) a discount of approximately 19.07% to the average closing price of HK\$0.0902 per ACL Share for the last ten trading days up to and including the Last Trading Day; (iii) a discount of approximately 15.61% to the theoretical ex-rights price of HK\$0.0865 per ACL Share based on the closing price of HK\$0.10 per ACL Share on the Last Trading Day; (iv) a discount of 0% to the closing price of HK\$0.073 per ACL Share on the Latest Practicable Date; (v) a discount of approximately 0.82% to the average closing price of HK\$0.0736 per ACL Share for the last ten trading days up to and including the Latest Practicable Date; and (vi) a discount of approximately 86.73% to the net asset value per ACL Share of HK\$0.55 based on the ACL's audited accounts as at 30th June, 2001.

LETTER FROM THE BOARD

Such subscription price was determined after taking into consideration the prevailing trading prices of the ACL Shares.

Payments by the Company:

depending on the level of acceptances of the Rights Shares by the ACL Qualifying Shareholders and transferees of nil-paid Rights Shares, the amount to be paid by the Controlling Shareholders would be between about HK\$23.3 million (assuming all ACL Qualifying Shareholders take up their Rights Shares in full) and HK\$46.0 million (assuming all of the outstanding ACL Warrants other than those held by the Controlling Shareholders, being 55,723,679 in number, are exercised in full on or prior to 26th March, 2002 and no ACL Qualifying Shareholders take up the Rights Shares except the Controlling Shareholders). The Rights Shares agreed to be taken up by the Controlling Shareholders and those to be underwritten by the Company will be financed by facilities in the amount of HK\$42 million especially arranged and in place for the purpose of the Rights Issue between the Company and a third party independent of the Company, ACL and each of their respective directors, chief executives, substantial shareholders and respective associates, and the balance from the internal resources of the Company

Use of proceeds:

the proceeds will be used as to 50% for the diversification of the ACL Group's business into the processing and distribution of Chinese medicinal herbs, namely Lingzhi, and as to 50% for general working capital for the ACL Group

Commission:

2% of the total subscription price of the Rights Shares underwritten by the Company

LETTER FROM THE BOARD

CONDITIONS

The Company's obligations in the Underwriting Agreement are conditional upon, amongst other things, each of the following events happening on or before 4:00 p.m. on Wednesday, 24th April, 2002, being the second business day following the last day of acceptance of provisional allotments (unless an earlier date is indicated):

1. the Shareholders approving the Underwriting Agreement at the SGM;
2. the posting of the prospectus, provisional allotment letters and forms of application for excess Rights Shares in relation to the Rights Issue to the ACL Qualifying Shareholders on or before 4th April, 2002;
3. the Listing Committee of the Stock Exchange granting or agreeing to grant, subject to allotment, and not having withdrawn or revoked the listing of, and permission to deal in, the Rights Shares in their nil-paid and fully-paid forms prior to Tuesday, 9th April, 2002, being the expected date of commencement of dealings in the Rights Shares in nil-paid form or such other date as may be agreed between the Company and ACL; and
4. the obligations of the Company under the Underwriting Agreement becoming unconditional and the Underwriting Agreement not being terminated in accordance with its terms or otherwise.

ACL

ACL is a company incorporated in Bermuda with limited liability whose securities are listed on the Stock Exchange. The businesses of the ACL Group consist principally of the design, manufacture and marketing of consumer electronic products.

As at the Latest Practicable Date, ACL's authorised share capital is HK\$160,000,000 divided into 16,000,000,000 ACL Shares. Of these, 574,630,910 ACL Shares have been issued and are fully-paid or credited as fully-paid. There are also outstanding ACL Warrants in issue carrying rights to subscribe up to an aggregate of 114,926,182 ACL Shares. As at the Last Trading Day, the Company (directly or indirectly through its wholly-owned subsidiaries) was beneficially interested in 319,190,517 ACL Shares, being about 55.55% of the issued share capital of ACL, and 59,202,503 ACL Warrants.

Accordingly, the Controlling Shareholders will be provisionally allotted 319,190,517 Rights Shares under the Rights Issue. Each of the Company, Batimate and Applied Electronics has irrevocably undertaken to subscribe (or procure subscribers) for these Rights Shares, being its proportionate entitlement under the Rights Issue. The balance of the 255,440,393 Rights Shares and the 55,723,679 Rights Shares which may be issued pursuant to the exercise of the ACL Warrants are fully underwritten by the Company as described above.

LETTER FROM THE BOARD

The book value of the consolidated net assets of the ACL Group as disclosed in its latest published audited consolidated accounts for the year ended 30th June, 2001 was HK\$316,071,237. Assuming no ACL Qualifying Shareholders take up the Rights Shares except the Controlling Shareholders, the Controlling Shareholders will be interested in approximately 77.77% of the audited consolidated net tangible assets of ACL as at 30th June, 2001 (not taking into account the net proceeds of the Rights Issue), being approximately HK\$245,808,601.

The audited consolidated loss after taxation of the ACL Group for the financial years ended 30th June, 2000 and 2001 were approximately HK\$24.8 million and HK\$28.5 million respectively and the corresponding loss before taxation for the same periods were approximately HK\$23.5 million and HK\$30.9 million respectively.

EFFECT OF THE UNDERWRITING ARRANGEMENT

As mentioned above, the Company has agreed to underwrite not less than 255,440,393 Rights Shares. If none of the provisional allotments of the Rights Shares is accepted by the ACL Qualifying Shareholders (other than the 319,190,517 Rights Shares undertaken to be accepted by the Controlling Shareholders or procured to be accepted by subscribers), the Company will be called upon to subscribe for or procure the subscription of these 255,440,393 Rights Shares (assuming no ACL Warrants are exercised on or prior to 26th March, 2002). This will increase the shareholding interest of the Controlling Shareholders as at 26th February, 2002 of about 55.55% to about 77.77% of ACL's issued share capital as enlarged by the Rights Issue. If this happens, less than 25% of the issued share capital of ACL will remain in public hands. The Company has undertaken to ACL and the Stock Exchange to place out sufficient ACL Shares to independent third parties so as to maintain at least 25% public float of ACL within one month after the completion of the Rights Issue.

REASONS FOR AND FINANCIAL EFFECTS OF THE UNDERWRITING

The transaction contemplated under the Underwriting Agreement enables the Company to support its subsidiary in its capital raising exercise and at the same time receive an underwriting fee for underwriting the Rights Issue.

Effect on assets and liabilities

Negative goodwill arising on consolidation of approximately HK\$57,876,000 and reduction of minority interests by the same amount will be shown on the balance sheet of the Company as a negative or contra-asset in accordance with the requirements of SSAP 30 which is effective for accounting periods beginning on or after 1st January, 2001.

Effect on earnings

As negative goodwill arising on consolidation of approximately HK\$57,876,000 will arise, its release to the income statement will affect future earnings of the Group. SSAP 30 defines the way in which negative goodwill should be released to the income statement and the Directors will conduct a detailed review to determine the manner in which SSAP 30 will be implemented. The Directors currently cannot determine the actual amount of goodwill that will be released to the income statement for the financial year ending 30th June, 2002 as they need to take into consideration other factors such as the balance sheet position of the Company and the actual amount of negative goodwill that has subsequently arisen as at 30th June, 2002 before the manner in which the negative goodwill should be amortized can be determined.

LETTER FROM THE BOARD

BUSINESS OVERVIEW AND FUTURE PROSPECTS OF THE GROUP

The Company is an investment holding company and together with its subsidiaries is principally engaged in the design, manufacture, marketing and distribution of consumer electronic products and property investment and development.

OEM business

The Company's OEM manufacturer company produces computer main boards, VGA cards, modem cards and sound cards. Due to the slower sales in computers and the slowdown of the worldwide economy, business for the OEM manufacturer company was reduced during the course of the year ended 30th June, 2001. In order to maintain its competitiveness in the market, the Company has introduced various measures to operate more efficiently and cost effectively.

Network marketing business

The Group plans to expand its network marketing business by introducing more new products such as Chinese medicines and other biotechnology products.

Review and prospect of ACL

During the financial year ended 30th June, 2001, the business of a subsidiary of ACL which is engaged in the manufacture of connectors used in personal computers declined. The Company has since then diversified its product lines into other electronic products on OEM and ODM basis and has implemented cost control measures to reduce cost.

Due to the drastic downturn of internet business worldwide, the ACL Group had ceased the internet portal and software development operations in the PRC and had written off the investment in these operations.

The directors of ACL believe that with the global increase in human awareness and the increasing popularity of Chinese health products, the business of manufacturing and distribution of Lingzhi has a good prospect and a promising outlook. The diversification of the ACL Group's business will not result in a change in the ACL Group's existing principal business.

Meanwhile, the ACL Group will continue to explore suitable opportunities to diversify its business into areas which would bring about future economic benefits and possible further improvement to the ACL Group's results.

LISTING RULES IMPLICATIONS

The book value of the net tangible assets of the ACL Group as disclosed in its latest published audited consolidated accounts for the year ended 30th June, 2001 was approximately HK\$316.0 million, and the loss before taxation of the ACL Group for the financial year ended 30th June, 2001 was approximately HK\$30.9 million.

The book value of the net tangible assets of the Group as disclosed in its latest published audited consolidated accounts for the year ended 30th June, 2001 was approximately HK\$392.4 million, and the loss before and after taxation of the Group for the financial year ended 30th June, 2001 was approximately HK\$37.3 million and HK\$37.5 million respectively. For the financial year ended 30th June, 2000, the profit before and after taxation of the Group was approximately HK\$9.5 million and HK\$9.0 million respectively.

LETTER FROM THE BOARD

As described above, depending on the level of acceptances of the Rights Shares by the ACL Qualifying Shareholders and transferees of nil-paid Rights Shares, the amount to be paid by the Controlling Shareholders would be between about HK\$23.3 million and HK\$46.0 million.

According to the Listing Rules, the proposed underwriting of the Rights Issue constitutes a discloseable transaction of the Company pursuant to Rule 14.12(1) of the Listing Rules. In addition, as the Company has entered into a transaction with its non-wholly owned subsidiary (being ACL), the underwriting of and participation in the Rights Issue constitute a connected transaction so far as the Company is concerned. Pursuant to the Listing Rules, approval from the Shareholders at a special general meeting of the Company will be required for the Underwriting Agreement and the transactions contemplated thereunder and no Shareholder will be required to abstain from voting on the basis that no Shareholder who is a connected person of the Company is interested in the transaction contemplated therein.

SGM

Set out on pages 23 to 24 of this circular is a notice convening the SGM to be held on Thursday, 4th April, 2002 at 10:00 a.m. at The Oregon Room, The American Club, 47th Floor, Two Exchange Square, No. 8 Connaught Place, Central, Hong Kong, at which an ordinary resolution will be proposed to consider and, if thought fit, approve the Underwriting Agreement.

You will find enclosed a form of proxy for use at the SGM. Whether or not you intend to be present at the meeting, you are requested to complete and return the form of proxy to the Company's Hong Kong branch share registrar, Central Registration Hong Kong Limited, at 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM should you so desire.

CONCLUSION

Your attention is drawn to the letter from the Independent Board Committee set out on page 11 of this circular which contains its recommendation to the Shareholders as to voting at the SGM regarding the Underwriting Agreement.

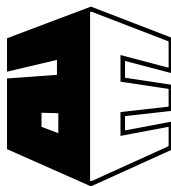
Your attention is also drawn to the letter received from Hantec which contains its advice to the Independent Board Committee as regards the Underwriting Agreement and the Rights Issue and the principal factors and reasons considered by it in arriving thereat. The text of the letter from Hantec is set out on pages 12 to 18 of this circular.

FURTHER INFORMATION

Your attention is drawn to the additional information set out in the appendix to this circular.

Yours faithfully,
On behalf of the Board of
Applied International Holdings Limited
Hung Kin Sang, Raymond
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



APPLIED INTERNATIONAL HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

19th March, 2002

*To the Shareholders and, for information only,
the Warrantholders*

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION

UNDERWRITING OF AND PARTICIPATION IN A PROPOSED RIGHTS ISSUE OF NEW SHARES BY APPLIED (CHINA) LIMITED

Reference is made to the circular of Applied International Holdings Limited dated 19th March, 2002 (the "Circular") of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

We are independent non-executive Directors who have been appointed by the Board to advise you as to whether, in our opinion, the terms of the Underwriting Agreement and the Rights Issue are fair and reasonable so far as the Shareholders as a whole are concerned.

The Independent Board Committee has appointed Hantec as the independent financial adviser to advise the Independent Board Committee on the Underwriting Agreement and the Rights Issue. The text of the letter from Hantec containing its advice, together with the principal factors taken into consideration in arriving thereat, are set out on pages 12 to 18 of the Circular.

Having considered the terms of the Underwriting Agreement and the Rights Issue and the advice given by Hantec, the Independent Board Committee is of the opinion that the terms of the Underwriting Agreement and the Rights Issue are fair and reasonable so far as the Shareholders as a whole are concerned. Accordingly, the Independent Board Committee recommends that Shareholders should vote in favour of the ordinary resolution in respect of the Underwriting Agreement to be proposed at the SGM.

Your attention is drawn to the letter from the Board set out on pages 4 to 10 of the Circular and the additional information set out in the appendix to this Circular.

Yours faithfully,

Lun Tsan Kau

Independent non-executive Director

Lo Yun Tai

Independent non-executive Director

Independent Board Committee

LETTER FROM HANTEC

The following is the text of a letter from Hantec in connection with the connected transaction which has been prepared for the purpose of inclusion in this circular:



45th Floor, COSCO Tower
183 Queen's Road Central
Hong Kong

19th March, 2002

*To the Independent Board Committee of
Applied International Holdings Limited*

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTION

UNDERWRITING OF AND PARTICIPATION IN A PROPOSED RIGHTS ISSUE OF NEW SHARES BY APPLIED (CHINA) LIMITED

We refer to our engagement to advise the Independent Board Committee in respect of the Underwriting Agreement dated 26th February, 2002 entered into between the Company, Batimate, Applied Electronics and ACL. ACL is a non-wholly owned subsidiary of the Company, and Batimate and Applied Electronics are wholly owned subsidiaries of the Company. Pursuant to the Underwriting Agreement, the Company has conditionally agreed to underwrite the Rights Issue and to receive an underwriting fee of 2% of the total subscription price of the Rights Shares underwritten by the Company. Depending on the acceptance level of the Rights Shares by the ACL Qualifying Shareholders and transferees of nil-paid Rights Shares, the amount to be paid by the Controlling Shareholders in connection with the Rights Issue would be between about HK\$23.3 million (assuming all ACL Qualifying Shareholders take up the Rights Shares in full) and HK\$46.0 million (assuming no ACL Qualifying Shareholders take up their Rights Shares except the Controlling Shareholders, and assuming all of the outstanding ACL Warrants other than those held by the Controlling Shareholders are exercised in full on or prior to 26th March, 2002). Details of the Rights Issue and the Underwriting Agreement are set out in the circular issued by the Company dated 19th March, 2002 (the "Circular"). Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

LETTER FROM HANTEC

Pursuant to Rule 14.12 of the Listing Rules, the Underwriting Agreement constitutes a possible discloseable transaction for the Company. In addition, the underwriting of and participation in the Rights Issue constitute a connected transaction so far as the Company is concerned since the Company has entered into a transaction with its non-wholly owned subsidiary. The Underwriting Agreement is therefore subject to the approval of the Shareholders at the SGM. No Shareholders will be required to abstain from voting at the SGM as no connected person of the Company is interested in the transaction contemplated therein.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and management of the Company. We have assumed that all information, representations and opinions contained in the Circular and provided by the Directors and management are true and accurate at the time they were made and will continue to be accurate at the date of despatch of the Circular. The Directors have further confirmed that, to the best of their knowledge, they believe there are no other facts or omissions which would make any statement in the Circular, including this letter, untrue, inaccurate or misleading. We have no reason to suspect any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations and opinions made to us untrue, inaccurate or misleading.

We consider that we have been provided with sufficient information to form a reasonable basis for our opinion. We, however, have not carried out any independent investigation of the information provided by the Directors and management of the Company, nor have we conducted an independent investigation into the business and affairs of the Company.

PRINCIPAL FACTORS CONSIDERED

We have taken into consideration the following principal factors in the course of formulating our opinion.

(a) Reasons for entering into the Underwriting Agreement

The Directors believe that the transaction under the Underwriting Agreement would enable the Company to support ACL in its capital raising exercise and at the same time to receive an underwriting fee.

ACL Group is principally engaged in the design, manufacture and marketing of consumer electronic products. The audited consolidated loss after taxation of ACL Group was approximately HK\$28.5 million for the financial year ended 30th June, 2001. According to the Letter from the Board issued to shareholders of ACL (“ACL Shareholders”) by the ACL’s board of directors dated 19th March, 2002, the HK\$28.5 million loss is due to the following reasons.

LETTER FROM HANTEC

- (a) During last financial year, the business of one of ACL's subsidiaries which is engaged in the manufacture of connectors used in personal computers was affected by the worldwide economy slowdown and the slower sales of personal computers.
- (b) ACL Group ceased its internet portal and software development in the PRC and wrote off the investment in these operations during the year ended 30th June, 2001.

The net proceeds of the Rights Issue are expected to be approximately HK\$40.3 million. 50% of the net proceeds (equivalent to approximately HK\$20.15 million) will be used for the diversification into the processing and distribution of Chinese medicinal herbs, namely Lingzhi, and the remaining 50% of the net proceeds (equivalent to approximately HK\$20.15 million) will be used as general working capital for ACL Group. Such diversification of business will not result in a change in the existing principal business of ACL Group.

The directors of ACL believe that with the global increase in human awareness and the increasing popularity of Chinese health products, the business of manufacturing and distribution of Lingzhi has a good prospect and promising outlook. The directors of ACL also believe that the Rights Issue will provide a good opportunity for ACL Group to raise funds and to strengthen its financial position. The Directors concur with the directors of ACL in this regard.

In view of the historical financial performance of ACL Group as stated above, we are of the opinion that it is in the interests of the Company and its Shareholders for ACL Group to diversify its existing business. As stated in the annual report 2001 of ACL Group, the cash and bank balances amounted to approximately HK\$13 million as at 30th June, 2001 which is not enough to finance the proposed development in Chinese medical herbs. Based on the aforesaid, we consider that ACL Group has a funding need and the Rights Issue is a prudent fund raising method for its long term growth as other methods such as placing of new ACL Shares would dilute existing ACL Shareholders' interest and bank borrowings would incur interest expense. Given the Company has adequate resources to support the Rights Issue as stated below, we are of the view that the entering into of the Underwriting Agreement would enable the Company to support ACL's development and at the same time receive an underwriting fee which are in the interests of the Company and the Shareholders.

LETTER FROM HANTEC

(b) Terms of the Rights Issue

Subject to the fulfillment of the conditions to the Rights Issue as set out in the Circular, the ACL Qualifying Shareholders will be provisionally allotted Rights Shares on the basis of one Rights Share for every existing ACL Share held. The subscription price of HK\$0.073 for each Rights Share represents:

- (i) a discount of 27.00% to the closing price of HK\$0.10 per ACL Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 19.07% to the average closing price of HK\$0.0902 per ACL Share for the last ten trading days up to and including the Last Trading Day;
- (iii) a discount of approximately 15.61% to the theoretical ex-rights price of HK\$0.0865 per ACL Share based on the closing price of HK\$0.10 per ACL Share on the Last Trading Day;
- (iv) equivalent to the closing price of HK\$0.073 per ACL Share on the Latest Practicable Date; and
- (v) a discount of approximately 86.73% to the net asset value per ACL Share of HK\$0.55 based on the ACL's audited accounts as at 30th June, 2001.

The subscription price was determined by ACL and the Company after taking into consideration the prevailing trading prices of ACL Shares. The directors of ACL consider the terms of the Rights Issue to be fair and reasonable and in the best interest of ACL and ACL Shareholders. The Directors also believe the terms of the Rights Issue are fair and reasonable so far as the Shareholders are concerned.

In order to complete our analysis, we have reviewed the terms of rights issues carried out by other five listed issuers on the Stock Exchange (these five rights issues are collectively referred to as "Other Rights Issues") starting from 1st January, 2002, all of which involve heavy calls on their existing shareholders (on the basis of one or more rights shares for every share held). The discount rates to the closing prices as quoted on the last trading days prior to the announcement dates of the Other Rights Issues ranged from approximately 27% to 85%, with the mean and median of approximately 52% and 36%. The discount rates to the theoretical ex-rights prices of the Other Rights Issues based on their closing prices on the last trading days ranged from approximately 16% to 66%, with the mean and median of approximately 31% and 22%. We consider that the terms of the Rights Issue are fair and reasonable so far as the Shareholders are concerned because the discount rate to the closing price as well as the discount rate to the theoretical ex-rights price quoted on the Last Trading Day of the Rights Issue are in line with the market rate.

LETTER FROM HANTEC

(c) Underwriting fee

The Company will receive an underwriting fee of 2% of the total subscription price of the Rights Shares underwritten by the Company, equivalent to approximately HK\$373,000 (assuming no ACL Warrant is exercised on or prior to 26th March, 2002). The underwriting fee for the Other Rights Issues, as percentages of the total subscription price of the rights shares underwritten, ranged from 1% to 3%, with a mean and median of 2.3% and 2.5% respectively. Therefore, the underwriting fee of 2% in the Rights Issue is, although slightly below the market rate, within the market range and is, in our opinion, appropriate.

(d) Funding arrangement to satisfy the underwriting obligation under the Underwriting Agreement

In the event that the ACL Qualifying Shareholders elect not to subscribe their respective portion of Rights Shares, which shall not affect the Controlling Shareholders' subscription of their portion of the Rights Shares as the Controlling Shareholders have irrevocably undertaken to fulfill subscription (such event, the "Under-subscription Event"), the Company will be obliged under the Underwriting Agreement to subscribe up to 255,440,393 Rights Shares for a total amount of approximately HK\$18.6 million (assuming no ACL Warrant is exercised on or prior to 26th March, 2002).

The underwriting obligation of approximately HK\$18.6 million, together with the subscription obligation of the Rights Shares undertaken by the Controlling Shareholders and any obligation arisen from the exercise of ACL Warrants on or prior to 26th March, 2002, are financed by facilities in the amount of HK\$42 million especially arranged and in place for the purpose of the Rights Issue between the Company and a third party independent of the Company, ACL, and each of their respective directors, chief executives, substantial shareholders and respective associates, and the balance from the internal resources of the Company. Interest on the amount of the facility drawn down by the Company will be charged at the prime rate (as quoted by the Hongkong and Shanghai Banking Corporation) or Hong Kong Inter Bank Offered Rate (HIBOR) plus 3% per annum, whichever is higher. As at the Latest Practicable Date, the said interest rate would be 8.125% and the interest expenses would be approximately HK\$3.4 million per annum, which is acceptable to the Company. As the cash and bank balance of the Group amounted to approximately HK\$18.5 million as at 30th June, 2001, we consider that the Group has sufficient cash to pay up the interests required.

(e) Financial impacts

Effect on assets and liabilities

According to the Letter from the Board issued to ACL Shareholders by ACL's board of directors dated 19th March, 2002, the pro forma unaudited adjusted consolidated net tangible asset value of ACL Group before and after the Rights Issue will be approximately HK\$304,088,000 and HK\$344,388,000 respectively.

LETTER FROM HANTEC

Upon acceptance of the Under-subscription Event, the Company is required under the Underwriting Agreement to subscribe or procure to subscribe 255,440,393 Rights Shares. The Company will then beneficially own approximately 77.77% of the issued share capital of ACL, as opposed to the existing shareholding of approximately 55.55%. Accordingly, the Company's share of net tangible assets in ACL as a result of fulfilling its underwriting obligations will increase by approximately HK\$76,523,000.

The amount to be paid by the Company in fulfilling its underwriting obligations will be approximately HK\$18,647,000 (HK\$0.073 per Rights Share multiplied by 255,440,393 Rights Shares and assuming no ACL Warrant exercised on or prior to 26th March, 2002). Negative goodwill of approximately HK\$57,876,000 will arise from the difference between (i) the amount to be paid by the Company for the underwritten Shares and (ii) the increase in the Company's share of ACL's net tangible assets. In addition, reduction of minority interests by approximately HK\$57,876,000 will be shown on the balance sheet as a negative or contra-asset in accordance with the requirements of SSAP 30 which is effective for accounting periods beginning on or after 1st January, 2001. We consider the decrease in minority interests and the resultant increase in net assets of the Group are in the interests of the Company and its Shareholders.

Effect on earnings

As negative goodwill resulting from consolidation of approximately HK\$57,876,000 will arise, its release to the income statement will affect future earnings of the Group. SSAP 30 defines the way in which negative goodwill should be released to the income statement and the Directors will conduct a detailed review to determine the manner in which SSAP 30 will be implemented. The Directors currently cannot determine the actual amount of goodwill that will be released to the income statement for the financial year ending 30th June, 2002 as they need to take into other factors such as the balance sheet position of the Company and the actual amount of negative goodwill that has subsequently arisen as at 30th June, 2002 before the manner in which the negative goodwill should be amortized can be determined. We consider the increase in income from the negative goodwill is in the interests of the Company and its Shareholders.

Effect on working capital

Assuming no ACL Warrants are exercised on or prior to 26th March, 2002 and assuming no ACL Qualifying Shareholders take up the Rights Shares other than the Controlling Shareholders, the Company will have to pay approximately HK\$18.6 million to fulfill its underwriting commitment, which will be funded by facilities especially arranged for the purpose of the Rights Issue between the Company and a third party. We concur with the Directors' view that, in the Under-subscription Event, the draw down of the facilities by the Company to fulfill its underwriting obligations will not have any material adverse effect on the working capital of the Company.

LETTER FROM HANTEC

(f) Public float

In the Under-subscription Event, the Company is required under the Underwriting Agreement to subscribe or procure to subscribe 255,440,393 Rights Shares. The Company will then beneficially own approximately 77.77% of ACL's issued share capital. In other words, less than 25% of ACL's issued share capital will remain in public hands. The Directors have undertaken to the Stock Exchange to take appropriate steps to maintain 25% public float of ACL's issued share capital, such as by transferring the shareholding interest of the Company in ACL to independent third parties within one month after completion of the Rights Issue. Shareholders should note that any consequential placing down or issue of securities by ACL for the fulfilment of the public float requirement could have dampening effect on the market price of the ACL Shares.

OPINION AND RECOMMENDATION

Having considered the above factors and reasons, and in particular that:

- ACL Group has a funding need and the Rights Issue is a prudent fund raising method for its long term growth as other methods such as placing of new ACL Shares would dilute existing ACL Shareholders' interest and bank borrowings would incur interest expense;
- the entering into of the Underwriting Agreement would enable the Company to support ACL's future development and at the same time to receive an underwriting fee;
- the possible increase in the net assets of the Group amounted to approximately HK\$57,876,000; and
- up to approximately HK\$57,876,000 negative goodwill will be released to the income statement of the Group which improves its income,

we are of the opinion that the terms and conditions of the Underwriting Agreement are fair and reasonable so far as the interests of the Company and the Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM for the approval of the Underwriting Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Hantec Capital Limited
Thomas Lai
Director

1. DISCLOSURE OF DIRECTORS' INTERESTS

As at the Latest Practicable Date, the interests of the Directors in the share capital of the Company and its associated corporations (within the meaning of the SDI Ordinance) which were recorded in the register kept by the Company pursuant to section 29 of the SDI Ordinance were as follows:

(i) Interest in Shares and Warrants

Name of Director	Number of Shares		Number of Warrants	
	Personal interests	Corporate interests	Personal interests	Corporate interests
Hung Kin Sang, Raymond	3,280,000	453,984,584 (Note)	560,000	90,796,916 (Note)
Hung Wong Kar Gee, Mimi	8,870,056	453,984,584 (Note)	1,774,011	90,796,916 (Note)
Fang Chin Ping	100,000	-	20,000	-
Soo Hung Leung, Lincoln	1,100,000	-	220,000	-

Note: These Shares and Warrants were held by the following companies:

	Number of Shares	Number of Warrants
Malcom 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
ACL	48,329,000	9,665,800

Malcom Trading Inc., Primore Co. Inc. and Capita Company Inc. are wholly owned by the Marami Foundation as the trustee of Raymond Hung/Mimi Hung & Family Trust. All units in Raymond Hung/Mimi Hung & Family Trust are beneficially owned by a discretionary trust, the beneficiaries of which include the family members of Hung Kin Sang, Raymond and Hung Wong Kar Gee, Mimi.

The above Directors are also indirectly interested in ACL as the Group held 319,190,517 ACL Shares and 59,202,503 ACL Warrants as at the Latest Practicable Date.

(ii) Interest in share options granted under the Share Option Scheme

Name of Director	Date of grant	Number of share options	Exercise price HK\$	Exercise period
Hung Kin Sang, Raymond	3rd July, 1997	8,400,000	0.36	any time on or before 2nd July, 2002
Hung Wong Kar Gee, Mimi	3rd July, 1997	7,000,000	0.36	any time on or before 2nd July, 2002

Save as disclosed above and other than certain nominee shares in subsidiaries held in trust for the Group by certain Directors, as at the Latest Practicable Date, none of the Directors or their associates had any personal interests, family interests, corporate interests or other interests in the securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) which have to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including the interests which they were deemed or taken to have under section 31 or Part I of the Schedule to the SDI Ordinance) or which were required pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to have been notified to the Company and the Stock Exchange.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been acquired, disposed of by or leased to any member of the Group since 30th June, 2001 (the date to which the latest published audited consolidated accounts of the Group were made up), or are proposed to be acquired, disposed of by or leased to any member of the Group.

There was no contract or arrangement subsisting at the Latest Practicable Date in which any of the Directors was materially interested and which was significant in relation to the business of the Group taken as a whole.

2. SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed above under the heading “Disclosure of Directors’ interests” in respect of certain Directors, the register of substantial Shareholders kept by the Company under Section 16(1) of the SDI Ordinance discloses no person as having an interest in 10% or more of the issued share capital of any member of the Group as at the Latest Practicable Date.

3. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 30th June, 2001, being the date to which the latest published audited accounts of the Group were made up.

4. LITIGATION

Neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, there were no existing or proposed directors' service contracts with any member of the Group, other than contracts terminable on not more than one year's notice with compensation payable.

6. CONSENT

The following is the qualification of the expert who has given its opinion or advice which is contained in this circular:

Name	Qualification
Hantec	Registered investment adviser

Hantec has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which it appears.

Hantec confirms that it does not have any shareholding in the Company or any of its subsidiaries or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Hantec also confirms that it does not have any interest, direct or indirect, in any assets which have been, since 30th June, 2001 (being the date to which the latest published audited accounts of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

7. MISCELLANEOUS

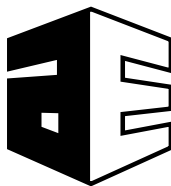
1. The registered office of the Company is at Cedar House, 41 Cedar Avenue, Hamilton HM 12, Bermuda.
2. The head office and principal place of business of the Company in Hong Kong is at 41st Floor, Far East Finance Centre, 16 Harcourt Road, Central, Hong Kong.
3. The company secretary of the Company is Lam Che Wah, Danny, who is a professional company secretary retained by the Company for the purpose of attending and assisting the Company in ensuring compliance with filing requirements under the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) and the Listing Rules. Mr. Lam is an associate member of the Institute of Chartered Secretaries and Administrators in the United Kingdom and The Hong Kong Institute of Company Secretaries.
4. The branch share registrar of the Company in Hong Kong is Central Registration Hong Kong Limited, at 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.
5. The English text of this circular shall prevail over the Chinese text in the case of inconsistency.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company, at 41st Floor, Far East Finance Centre, 16 Harcourt Road, Central, Hong Kong during normal business hours on any weekday (public holidays excepted) up to and including the date of the SGM:

- (i) the memorandum of association and bye-laws of the Company;
- (ii) the Underwriting Agreement;
- (iii) the letter of advice from Hantec, the text of which is set out on pages 12 to 18 of this circular;
- (iv) the written consent from Hantec referred to in the paragraph headed "Consent" in this appendix; and
- (v) this circular.

NOTICE OF THE SGM



APPLIED INTERNATIONAL HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

NOTICE is hereby given that a special general meeting of Applied International Holdings Limited (the “Company”) will be held at 10:00 a.m. on Thursday, 4th April, 2002 at The Oregon Room, The American Club, 47th Floor, Two Exchange Square, No. 8 Connaught Place, Central, Hong Kong for the purpose of considering and, if thought fit, passing (with or without amendments) the following resolution as an ordinary resolution:

ORDINARY RESOLUTION

“THAT:

- (a) the terms of the underwriting agreement dated 26th February, 2002 (“Underwriting Agreement”) entered into between, amongst others, the Company and Applied (China) Limited (“ACL”) and the transactions contemplated thereunder (the details of which are set out in the Company’s circular dated 19th March, 2002 (“Circular”)) be and are hereby approved, confirmed and ratified; and
- (b) the directors of the Company be authorised to take such action and execute such documents as is necessary and in their opinion desirable to give effect to the terms of the Underwriting Agreement and the matters set out in the Circular.”

By Order of the Board of
Applied International Holdings Limited
Hung Kin Sang, Raymond
Chairman

Hong Kong, 19th March, 2002

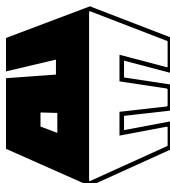
NOTICE OF THE SGM

*Head office and
principal place of business:*

41st Floor
Far East Finance Centre
16 Harcourt Road
Central
Hong Kong

Notes:

- (1) *A member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint one or more than one proxy to attend and to vote in his stead. A proxy need not be a member of the Company.*
- (2) *A form of proxy of the meeting is enclosed. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney authorised in writing, or if the appointer is a corporation, the form of proxy must be under its common seal or, under the hand of an officer or attorney duly authorised on its behalf.*
- (3) *To be valid, a form of proxy must be deposited at the Company's Hong Kong branch share registrar, Central Registration Hong Kong Limited, at 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the special general meeting or any adjournment thereof.*
- (4) *Where there are joint registered holders of any Share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such Share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present whose name stands first on the register in respect of such Share shall alone be entitled to vote in respect thereof.*



APPLIED INTERNATIONAL HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

FORM OF PROXY FOR USE BY SHAREHOLDERS AT THE SPECIAL GENERAL MEETING TO BE HELD AT 10:00 A.M. ON THURSDAY, 4TH APRIL, 2002

I/We¹ _____ of _____
_____ being the registered holder(s) of²
_____ shares of HK\$0.20 each in the
capital of APPLIED INTERNATIONAL HOLDINGS LIMITED (the "Company"), hereby appoint³ the Chairman
of the meeting or _____ of _____
_____ as my/our proxy to attend and vote for me/us and on my/our behalf in the
manner indicated below, or if no such indication is given then to vote as my/our proxy thinks fit, at the special
general meeting of the Company to be held at 10:00 a.m. on Thursday, 4th April, 2002 at The Oregon Room,
The American Club, 47th Floor, Two Exchange Square, No. 8 Connaught Place, Central, Hong Kong or at any
adjournment thereof for the purpose of considering and, if thought fit, passing the resolution set out in the notice
convening the said special general meeting in the Company's circular dated 19th March, 2002 (the "Notice of
the SGM").

ORDINARY RESOLUTION	FOR ⁴	AGAINST ⁴

Dated this _____ day of _____ 2002 Signature of shareholders⁵ _____

Notes:

1. Full name(s) and address(es) to be inserted in **BLOCK CAPITALS**.
2. Please insert the number of shares registered in your name(s) to which this form of proxy relates. If no number is inserted, this form of proxy will be deemed to relate to all the shares in the capital of the Company registered in your name(s).
3. If any proxy other than the Chairman of the meeting is preferred, strike out the words "the Chairman of the meeting or" and insert the name and address of the proxy desired in the space provided. If this space is not completed, the Chairman of the meeting will act as your proxy. **ANY ALTERATION MADE TO THIS FORM OF PROXY MUST BE INITIALED BY THE PERSON WHO SIGNS IT.**
4. Please indicate by an "X" in the space provided how you wish your votes to be cast. Without such specific directions the proxy may at his/her discretion vote for or against the resolution or abstain from voting.
5. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney authorised in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised.
6. Where there are joint registered holders of any Share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such Share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present whose name stands first on the register in respect of such Share shall alone be entitled to vote in respect thereof.
7. In order to be valid, this form of proxy, duly executed, and the power of attorney, or other authority (if any) under which it is executed or a notarially certified copy thereof, must reach the office of the Company's Hong Kong branch share registrar, Central Registration Hong Kong Limited, at 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for the meeting.
8. The proxy need not be a member of the Company but must attend the meeting in person to represent you.
9. Completion and delivery of this form of proxy will not preclude you from attending and voting at the meeting if you so wish. In that event, this form of proxy will be deemed to have been revoked.