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If you are in any doubt as to any aspect of this circular, you should consult a stockbroker or other registered dealer in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Applied International Holdings Limited, you should at once hand this circular and the accompanying form of proxy 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.



APPLIED INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

**GENERAL MANDATES TO ISSUE AND REPURCHASE SHARES
AND
ADOPTION OF NEW SHARE OPTION SCHEME OF THE COMPANY
AND
NEW SHARE OPTION SCHEME OF APPLIED (CHINA) LIMITED**

A notice convening a special general meeting of Applied International Holdings Limited to be held at 10:00 a.m. on 16th September 2002, at Suite 4103-5, 41st Floor, Far East Finance Centre, 16 Harcourt Road, Central, Hong Kong is set out on pages 32 to 35 of this circular. Whether or not shareholders are able to attend the Special General Meeting, they are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and deposit it with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services 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 holding the meeting. Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the meeting or any adjourned meeting should they so desire.

28th August, 2002

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RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The Directors of the Company 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 the omission of which would make any statement herein misleading.

DEFINITIONS

In this circular and the appendix to it, the following expressions have the following meanings unless the context requires otherwise:

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| “ACL” | Applied (China) Limited, a company incorporated in Bermuda and which shares are listed on the Stock Exchange and is a subsidiary of the Company; |
| “ACL Board” | the board of ACL directors; |
| “ACL Date of Grant” | in respect of an ACL Option, the business day on which the ACL Board resolves to make an offer of that ACL Option to an ACL Participant; |
| “ACL Existing Scheme” | the share option scheme adopted by ACL on 6th September, 1991; |
| “ACL Grantee” | an ACL Participant who has been granted and accepted ACL Option(s); |
| “ACL Group” | at any time ACL and its subsidiaries at that time; |
| “ACL Issued Share Capital” | the issued ordinary share capital of ACL as at 12th August, 2002, being the Latest Practicable Date; |
| “ACL New Scheme” | the new share option scheme proposed to be approved by the AIHL Shareholders at the AIHL SGM, a summary of the principal terms of which is set out in appendix II to this circular; |
| “ACL Options” | options that may be granted pursuant to the ACL New Scheme; |
| “ACL Participants” | persons eligible to be granted ACL Options under the ACL New Scheme as specified in paragraph 2 of appendix II on page 19 of this circular; |
| “ACL SGM” | the special general meeting of ACL to be held on 16th September, 2002; |
| “ACL Share(s)” | ordinary shares of HK\$0.01 each in the capital of ACL; |
| “ACL Shareholders” | holders of ACL Shares; |
| “AIHL Board” | the board of AIHL Directors; |

DEFINITIONS

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| “AIHL Date of Grant” | in respect of an AIHL Option, the business day on which the AIHL Board resolves to make an offer of that AIHL Option to an AIHL Participant; |
| “AIHL Directors” | directors of the Company; |
| “AIHL Existing Scheme” | the share option scheme adopted by the Company on 28th May, 1997; |
| “AIHL Grantee” | an AIHL Participant who has been granted and accepted AIHL Option(s); |
| “AIHL Group” | at any time the Company and its subsidiaries at that time; |
| “AIHL Issued Share Capital” | the issued ordinary share capital of the Company as at 12th August, 2002, being the Latest Practicable Date; |
| “AIHL New Scheme” | the new share option scheme proposed to be approved by the AIHL Shareholders at the AIHL SGM, a summary of the principal terms of which is set out in appendix I to this circular; |
| “AIHL Options” | options that may be granted pursuant to the AIHL New Scheme; |
| “AIHL Participants” | persons eligible to be granted AIHL Options under the AIHL New Scheme as specified in paragraph 2 of appendix 1 on page 11 of this circular; |
| “AIHL SGM” | the special general meeting of the Company to be held on 16th September, 2002, the notice of which is set out on pages 32 to 35 of this circular; |
| “AIHL Share(s)” | ordinary shares of HK\$0.20 each in the capital of the Company; |
| “AIHL Shareholders” | holders of AIHL Shares; |
| “Company” | Applied International Holdings Limited; |
| “Existing Option(s)” | option(s) to subscribe for AIHL Shares granted by the Company under the AIHL Existing Scheme; |

DEFINITIONS

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| “Hong Kong” | the Hong Kong Special Administrative Region of the People’s Republic of China; |
| “Latest Practicable Date” | 12th August, 2002, being the latest practicable date for ascertaining certain information for inclusion in this circular; |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange; |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited; |
| “Takeover Code” | the Hong Kong Code on Takeovers and Mergers; |
| “Warrantholders” | holders of Warrants; |
| “Warrants” | warrant(s) issued by the Company which entitle the holders to subscribe for one fully-paid AIHL 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; and |
| “\$” | Hong Kong dollars. |

LETTER FROM THE BOARD OF DIRECTORS



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:

Suite 4103-5
41st Floor
Far East Finance Centre
16 Harcourt Road
Central
Hong Kong

Independent Non-executive Directors:

Lun Tsan Kau
Lo Yun Tai

28th August, 2002

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

Dear Sir or Madam,

**GENERAL MANDATES TO ISSUE AND REPURCHASE SHARES
AND
ADOPTION OF NEW SHARE OPTION SCHEME OF THE COMPANY
AND
NEW SHARE OPTION SCHEME OF APPLIED (CHINA) LIMITED**

INTRODUCTION

It is proposed that, at the AIHL SGM, ordinary resolutions will be proposed to (i) terminate the AIHL Existing Scheme (ii) adopt the AIHL New Scheme and (iii) approve the adoption of the ACL New Scheme. Ordinary resolutions will also be proposed at the AIHL SGM to grant the AIHL Directors general mandates to issue and purchase securities.

LETTER FROM THE BOARD OF DIRECTORS

The AIHL Directors note that the Stock Exchange announced certain amendments to Chapter 17 of the Listing Rules (share option schemes) on 23rd August, 2001 which came into effect on 1st September, 2001. The AIHL Directors propose that the Company replaces the AIHL Existing Scheme by the AIHL New Scheme which will comply with the amended rules. For similar reasons, it is proposed that the ACL Existing Scheme be replaced by the ACL New Scheme. Upon adoption of the AIHL New Scheme and the ACL New Scheme, the AIHL Existing Scheme and the ACL Existing Scheme will terminate respectively and no further options can be granted under the AIHL Existing Scheme and the ACL Existing Scheme. Apart from the AIHL Existing Scheme and the ACL Existing Scheme, the Company and ACL had no other share option scheme as at the Latest Practicable Date respectively. A summary of the principal terms of the AIHL New Scheme and the ACL New Scheme is set out in appendix I and II to this circular.

As at the Latest Practicable Date, 26,490,800 Existing Options, representing 2.8% of the AIHL Issued Share Capital, were granted of which (i) no Existing Option had been exercised; (ii) 11,090,800 Existing Options, representing 1.2% of the AIHL Issued Share Capital, had lapsed in accordance with the terms of the AIHL Existing Scheme and (iii) 15,400,000 Existing Options, representing 1.6% of the AIHL Issued Share Capital remain unexercised and outstanding. Exercise of the outstanding Existing Options would result in 15,400,000 AIHL Shares being issued. The outstanding Existing Options will continue to be exercisable in accordance with their terms of issue after the termination of the AIHL Existing Scheme provided that any such exercise of the Existing Options is in compliance with the Listing Rules. The Company has no intention to grant any option under the AIHL Existing Scheme during the period from the Latest Practicable Date to the date of the AIHL SGM.

No option was granted under the ACL Existing Scheme. ACL has stated that it has no intention to grant any option under the ACL Existing Scheme during the period from the Latest Practicable Date till the date of the ACL SGM.

DETAILS OF THE AIHL NEW SCHEME

The purpose of the AIHL New Scheme is to provide AIHL Participants with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and the AIHL Shares for the benefit of the Company and the AIHL Shareholders as a whole.

The AIHL New Scheme does not specify a minimum period for which an AIHL Option must be held nor a performance target which must be achieved before an AIHL Option can be exercised. However, the rules of the AIHL New Scheme provide that the AIHL Board may determine, at its sole discretion, such term(s) on the grant of an AIHL Option. This determination may vary on a case by case basis but no such term(s) shall be imposed the result of which will be to the advantage of the AIHL Participants. The basis for determination of the subscription price is also specified precisely in the rules of the AIHL New Scheme. The

LETTER FROM THE BOARD OF DIRECTORS

AIHL Directors consider that the aforesaid criteria and rules will serve to preserve the value of the Company and encourage the AIHL Participants to acquire proprietary interests in the Company.

The AIHL Directors consider that it is not appropriate to state the value of all AIHL Options that can be granted under the AIHL New Scheme as if they had been granted on the Latest Practicable Date as a number of variables which are crucial for the calculation of that value have not been determined. Such variables include the exercise price, exercise period, any performance targets set and other relevant variables. The AIHL Directors believe that any calculation of the value of the AIHL Options as at the Latest Practicable Date based on a great number of speculative assumptions would not be meaningful and would be misleading to the AIHL Shareholders.

The adoption of the AIHL New Scheme is conditional upon:

- (1) the AIHL Shareholders passing an ordinary resolution at the AIHL SGM to approve the termination of the AIHL Existing Scheme and the adoption of the AIHL New Scheme; and
- (2) the Listing Committee of the Stock Exchange granting approval of the listing of, and permission to deal in, the AIHL Shares to be issued pursuant to any exercise of the AIHL Options and which AIHL Shares must not in aggregate exceed 10% of the issued share capital of the Company as at the date of adoption of the AIHL New Scheme by resolution of the AIHL Shareholders.

If condition (2) above is not satisfied within 2 calendar months after the date of adoption of the AIHL New Scheme, the AIHL New Scheme shall forthwith determine and no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the AIHL New Scheme and the AIHL Existing Scheme shall continue to operate.

Based on 941,080,745 AIHL Shares in issue as at the Latest Practicable Date and assuming that there is no change in the issued share capital of the Company before the AIHL SGM, the maximum number of AIHL Shares that can be issued upon exercise of options that may be granted under the proposed AIHL New Scheme is 94,108,074 AIHL Shares.

An application will be made to the Stock Exchange for approval of the listing of and permission to deal in the AIHL Shares that may be issued pursuant to the exercise of the AIHL Options that may be granted under the AIHL New Scheme. An announcement will be made by AIHL in compliance with the Listing Rules in respect of the outcome of the AIHL SGM.

LETTER FROM THE BOARD OF DIRECTORS

DETAILS OF THE ACL NEW SCHEME

The terms of the ACL New Scheme are substantially the same as those of the AIHL New Scheme, details of which are set out in appendix II to this circular.

The adoption of the ACL New Scheme is conditional upon:

- (1) the AIHL Shareholders passing an ordinary resolution at a special general meeting to approve the adoption of the ACL New Scheme;
- (2) the ACL Shareholders passing an ordinary resolution at the ACL SGM to approve the termination of the ACL Existing Scheme and the adoption of the ACL New Scheme; and
- (3) the Listing Committee of the Stock Exchange granting approval of the listing of, and permission to deal in, the ACL Shares to be issued pursuant to any exercise of the ACL Options and which ACL Shares must not in aggregate exceed 10% of the issued share capital of ACL as at the date of adoption of the ACL New Scheme by resolution of the ACL Shareholders.

If conditions (1) and (3) above are not satisfied within 2 calendar months after the date of adoption of the ACL New Scheme by the ACL Shareholders, the ACL New Scheme shall forthwith determine and no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the ACL New Scheme and the ACL Existing Scheme shall continue to operate. An ordinary resolution will be proposed at the AIHL SGM to approve the matter referred to in condition (1) above.

Based on 1,149,261,820 ACL Shares in issue as at the Latest Practicable Date and assuming that there is no change in the issued share capital of ACL before the ACL SGM, the maximum number of ACL Shares that can be issued upon exercise of options that may be granted under the proposed ACL New Scheme is 114,926,182 ACL Shares.

An application will be made to the Stock Exchange for approval of the listing of and permission to deal in the ACL Shares that may be issued pursuant to the exercise of the ACL Options that may be granted under the ACL New Scheme.

GENERAL MANDATE TO ISSUE AND REPURCHASE SECURITIES

The AIHL Directors are also seeking the passing of ordinary resolutions at the AIHL SGM to give to the AIHL Directors new general mandates:

- (1) to allot, issue and otherwise deal with new AIHL Shares with an aggregate nominal amount not exceeding 20% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing the proposed resolution at the AIHL SGM;

LETTER FROM THE BOARD OF DIRECTORS

- (2) to purchase AIHL Shares with an aggregate nominal amount not exceeding 10% of the aggregate nominal amount of issued share capital of the Company as at the date of passing the proposed resolution at the AIHL SGM; and
- (3) to purchase not exceeding 10% of the outstanding Warrants as at the date of passing the proposed resolution at the AIHL SGM.

A separate ordinary resolution will be proposed at the AIHL SGM to add to the mandate to issue AIHL Shares a number of AIHL Shares equal to the number (if any) of AIHL Shares purchased by the Company pursuant to the purchase mandate granted to the AIHL Directors at the AIHL SGM.

Based on 941,080,745 AIHL Shares in issue as at the Latest Practicable Date and assuming that there is no change in the issued share capital of the Company before the AIHL SGM, the maximum number of AIHL Shares that can be (i) issued under the general mandate to issue AIHL Shares and (ii) purchased under the general mandate to purchase AIHL Shares proposed to be granted to the AIHL Directors is 188,216,149 AIHL Shares and 94,108,074 AIHL Shares respectively.

Based on 189,334,149 outstanding Warrants in issue as at the Latest Practicable Date and assuming that there is no change in the number of outstanding Warrants before the AIHL SGM, the maximum number of Warrants that can be purchased under the general mandate to purchase Warrants proposed to be granted to the AIHL Directors is 18,933,414 Warrants.

The mandates to issue AIHL Shares and purchase AIHL Shares and Warrants proposed to be granted to the AIHL Directors at the AIHL SGM will expire upon the earliest of:

- (1) the conclusion of the next annual general meeting of the Company;
- (2) the expiration of the period within which the next annual general meeting of the Company is required by the memorandum and bye-laws of the Company or any applicable law of Bermuda to be held; and
- (3) the revocation or variation of the authority given under this resolution by an ordinary resolution of the AIHL Shareholders in general meeting.

ACTION TO BE TAKEN

A form of proxy for use at the AIHL SGM is enclosed. Whether or not the AIHL Shareholders intend to attend the AIHL SGM, the AIHL Shareholders are requested to complete and return the form of proxy in accordance with the instructions printed thereon and deposit with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at 17th Floor, Hopwell Centre, 183 Queen's Road East, Hong Kong as soon

LETTER FROM THE BOARD OF DIRECTORS

as possible and in any event so as to arrive not less than 48 hours before the time fixed for holding the AIHL SGM. The return of a form of proxy will not preclude the AIHL Shareholders from attending and voting in person at the AIHL SGM if the AIHL Shareholders so wish.

RECOMMENDATION

The AIHL Directors believe that (i) the termination of the AIHL Existing Scheme, (ii) the adoption of the AIHL New Scheme and the ACL New Scheme and (iii) the grant of the general mandates to issue AIHL Shares and purchase AIHL Shares and Warrants are in the best interests of the Company and the AIHL Shareholders. Accordingly, the AIHL Directors recommend all AIHL Shareholders to vote in favour of the ordinary resolutions at the AIHL SGM.

A copy of the AIHL New Scheme and ACL New Scheme are available for inspection during normal business hours at the principal place of business in Hong Kong of the Company from the date of this circular up to the date of the AIHL SGM (both days inclusive).

GENERAL

Your attention is drawn to appendix I and II of this circular which sets out the summary of the terms of the AIHL New Scheme and the ACL New Scheme respectively and appendix III of this circular which contains an explanatory statement regarding the purchase of AIHL Shares.

By order of the AIHL Board
Applied International Holdings Limited
Hung Kin Sang, Raymond
Chairman and Managing Director

The following is a summary of the terms required to be included in the AIHL New Scheme as required by the Listing Rules:

I. SUMMARY OF THE PRINCIPAL TERMS OF THE AIHL NEW SCHEME

1. The purpose of the AIHL New Scheme is to provide the AIHL Participants with the opportunity to acquire proprietary interests in the Company and to encourage AIHL Participants to work towards enhancing the value of the Company and the AIHL Shares for the benefit of the Company and the AIHL Shareholders as a whole.
2. All directors (including executive directors, non-executive directors and independent non-executive directors) and employees of the AIHL Group and consultants, advisors, agents, customers, suppliers, service providers, contractors, business partners of any member of the AIHL Group or any company or other entity in which the AIHL Group or any member of it is interested who, in the sole discretion of the AIHL Board, have contributed or will contribute to the AIHL Group or any member of it are eligible to participate in the AIHL New Scheme.
3. The total number of AIHL Shares which may be issued upon exercise of all outstanding AIHL Options granted and yet to be exercised under the AIHL New Scheme or any other share option scheme adopted by the Company must not exceed 30% of the AIHL Shares in issue from time to time. No AIHL Option may be granted under the AIHL New Scheme or any other share option scheme adopted by the Company if that will result in the 30% limit being exceeded. The number of AIHL Shares which may be issued upon exercise of all AIHL Options to be granted under the AIHL New Scheme shall not (when aggregated with any AIHL Shares subject to any other share option scheme(s) of the Company) exceed 10% in nominal amount of the issued share capital of the Company as at the date of adoption of the AIHL New Scheme. AIHL Shares which have been duly allotted and issued pursuant to the AIHL Scheme and AIHL Options which have lapsed in accordance with the terms of the AIHL New Scheme will not be counted in calculating the 10% limit. However, the Company may refresh this 10% limit with AIHL Shareholders' approval in general meeting with the issue of an appropriate circular to AIHL Shareholders provided that each such renewal may not exceed 10% of the AIHL Shares in issue as at the date of the AIHL Shareholders' approval for refreshing the 10% limit. The Company may seek separate approval by AIHL Shareholders in general meeting, with the issue of an appropriate circular to AIHL Shareholder, for granting options beyond the 10% limit provided the AIHL Options in excess of the limit are granted only to the AIHL Participants specially identified by the Company before such approval is sought.

4. Unless approved by AIHL Shareholders in the manner set out below in this paragraph, the total number of AIHL Shares issued and to be issued upon exercise of the AIHL Options granted to each AIHL Participant or AIHL Grantee (as the case may be) (including both exercised and unexercised AIHL Options) under the AIHL New Scheme or any other share option scheme adopted by the Company in any 12 month period must not exceed 1% of the AIHL Shares in issue. Any further grant of AIHL Options which would result in the number of AIHL Shares issued as aforesaid exceeding the said 1% limit shall be subject to prior AIHL Shareholders' approval with the relevant AIHL Participant or AIHL Grantee (as the case may be) and his associates (as such term is defined in the Listing Rules) abstaining from voting. A circular must be sent to the AIHL Shareholders disclosing the identity of such AIHL Participant or AIHL Grantee (as the case may be) and the number and terms of the AIHL Options granted and to be granted.

5.
 - (a) The period within which the AIHL Options must be exercised will be specified by the Company at the time of grant. This period must expire no later than 10 years from the relevant AIHL Date of Grant (being the business day on which the AIHL Board resolves to make an offer of AIHL Option to the relevant AIHL Grantee).

 - (b) In the event an AIHL Grantee, if an employee, ceases to be an employee of the AIHL Group for any reason other than (i) his or her death or (ii) on one or more of the grounds of termination of employment specified in paragraph 12(f) below, the AIHL Option shall lapse on the date of cessation of such employment and not be exercisable unless the AIHL Board otherwise determines in which event the AIHL Option shall be exercisable to the extent and within such period as the AIHL Board may determine. The date of cessation of employment shall be the last actual working day on which the AIHL Grantee was physically at work with the Company or the relevant Subsidiary, whether salary is paid in lieu of notice or not.

 - (c) In the event the AIHL Grantee dies before exercising the AIHL Option in full and, if the AIHL Grantee is an employee, none of the events for termination of employment under paragraph 12(f) below then exists with respect to such AIHL Grantee, the personal representative(s) of the AIHL Grantee shall be entitled within a period of 12 months from the date of death to exercise the AIHL Option up to the entitlement of such AIHL Grantee as at the date of death.

 - (d) If a general offer by way of takeover or otherwise (other than by way of scheme of arrangement pursuant to paragraph 5(e) below) is made to all the holders of AIHL Shares (or all such holders other than the offeror, any person controlled by the offeror and any person acting in association or

concert with the offeror) and such offer becomes or is declared unconditional prior to the expiry date of the relevant AIHL Option, the Company shall forthwith give notice thereof to the AIHL Grantee and the AIHL Grantee shall be entitled to exercise the AIHL Option either to its full extent or to the extent notified by the Company at any time within such period as shall be notified by the Company.

- (e) If a general offer for AIHL Shares by way of scheme of arrangement is made to all the holders of AIHL Shares and has been approved by the necessary number of holders of AIHL Shares at the requisite meetings, the Company shall forthwith give notice thereof to the AIHL Grantee and the AIHL Grantee may at any time thereafter (but before such time as shall be notified by the Company) exercise the AIHL Option either to its full extent or to the extent notified by the Company.
- (f) In the event a notice is given by the Company to the AIHL Shareholders to convene an AIHL Shareholders' meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall forthwith give notice thereof to the AIHL Grantee and the AIHL Grantee may at any time thereafter (but before such time as shall be notified by the Company) exercise the AIHL Option either to its full extent or to the extent notified by the Company, and the Company shall as soon as possible and in any event no later than three days prior to the date of the proposed shareholders' meeting, allot, issue and register in the name of the AIHL Grantee such number of fully paid AIHL Shares which fall to be issued on exercise of such AIHL Option.
- (g) In the event of a compromise or arrangement, other than a scheme of arrangement contemplated in paragraph 5(e) above, between the Company and its members and/or creditors being proposed in connection with a scheme for the reconstruction or amalgamation of the Company, the Company shall give notice thereof to all AIHL Grantees on the same day as it first gives notice of the meeting to its members and/or creditors to consider such a scheme or arrangement and the AIHL Grantee may at any time thereafter but before such time as shall be notified by the Company exercise the AIHL Option either to its full extent or to the extent notified by the Company, and the Company shall as soon as possible and in any event no later than three days prior to the date of the proposed meeting, allot, issue and register in the name of the AIHL Grantee such number of fully paid AIHL Shares which fall to be issued on exercise of such AIHL Option.

(h) Upon the occurrence of any of the events referred to in paragraphs 5(d), (e), (f) and (g) above, the Company may in its discretion and notwithstanding the terms of the relevant AIHL Option also give notice to an AIHL Grantee that his or her AIHL Option may be exercised at any time within such period as shall be notified by the Company and/or to the extent (not being less than the extent to which it could then be exercised in accordance with its terms) notified by the Company. If the Company gives such notice, the balance of the AIHL Option shall lapse.

6. Each grant of AIHL Options to any AIHL Director, chief executive or substantial shareholder of the Company, or any of their respective associates (as such term is defined in the Listing Rules) shall be subject to the prior approval of the independent non-executive directors of the Company (excluding any independent non-executive director who is an AIHL Grantee of the AIHL Option in question). Where any grant of AIHL Options to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates (as such term is defined in the Listing Rules), would result in the AIHL Shares issued and to be issued upon exercise of all AIHL Options already granted and to be granted (including AIHL Options exercised, cancelled and outstanding) to such person in the 12 month period up to and including the date of such grant:

(a) representing in aggregate over 0.1% (or such other percentage as may from time to time be specified by the Stock Exchange) of the AIHL Shares in issue; and

(b) having an aggregate value, based on the closing price of the AIHL Shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of each grant, in excess of HK\$5 million (or such other percentage as may from time to time be specified by the Stock Exchange),

such grant of AIHL Options shall be subject to prior approval by the AIHL Shareholders. Any vote taken at the meeting to approve the grant of such AIHL Options must be taken on a poll. All connected persons (as defined in the Listing Rules) of the Company shall abstain from voting at such general meeting, except that any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular to be sent to the AIHL Shareholders in connection therewith.

7. Unless otherwise determined by the AIHL Board at its sole discretion, the AIHL New Scheme does not require a minimum period for which an AIHL Option must be held nor a performance target which must be achieved before an AIHL Option can be exercised. In the event that the AIHL Board resolves to impose such term(s) on the grant of an AIHL Option which decision may vary on a case by

case basis, such terms should be stated in the letter containing the offer to the relevant AIHL Participant and no such term(s) shall be imposed the result of which will be to the advantage of the AIHL Participants.

8. The amount payable on acceptance of an AIHL Option is HK\$1 and an offer shall remain open for acceptance by the AIHL Participant for a period of 30 days from the date on which the letter containing the offer is delivered to that AIHL Participant.
9. The subscription price for the AIHL Shares the subject of an AIHL Option shall be no less than the higher of (i) the closing price of the AIHL Shares as stated in the daily quotations sheets issued by the Stock Exchange on the AIHL Date of Grant; (ii) the average closing price of the AIHL Shares as stated in the daily quotations sheets issued by the Stock Exchange for the 5 business days immediately preceding the AIHL Date of Grant; and (iii) the nominal value of an AIHL Share on the AIHL Date of Grant. The subscription price will be established by the AIHL Board at the time the AIHL Option is offered to the relevant AIHL Participant.
10. The AIHL Shares to be allotted and issued upon the exercise of an AIHL Option shall be subject to all the provisions of the memorandum and bye-laws of the Company in force at the relevant time and will rank *pari passu* with the fully paid AIHL Shares in issue on the date the name of the AIHL Grantee is registered on the register of members of the Company. Prior to the AIHL Grantee being registered on the register of members of the Company, the AIHL Grantee shall not have any voting rights, or rights to participate in any dividends or distributions of any rights arising on a liquidation of the Company, in respect of the AIHL Shares to be issued upon the exercise of the AIHL Option.
11. The AIHL New Scheme shall be valid and effective for a period of ten years commencing on the date of adoption of the AIHL New Scheme by resolution of the AIHL Shareholders.
12. An AIHL Option shall lapse automatically and not be exercisable, to the extent not already exercised, on the earliest of:
 - (a) the expiry of the AIHL Option period;
 - (b) the expiry of the period for exercising the AIHL Option as referred to in paragraphs 5(b), (c), (d), (f) or (g) above;
 - (c) subject to the scheme of arrangement referred to in paragraph 5(e) above becoming effective, the expiry of the period for exercising the AIHL Option as referred to in paragraph 5(e) above;

- (d) subject to paragraph 5(f) above, the date of commencement of the winding up of the Company;
 - (e) the date on which the AIHL Grantee sells, transfers, charges, mortgages, encumbers or creates any interest in favour of any other person, over or in relation to any AIHL Option in breach of the AIHL New Scheme;
 - (f) the date on which the AIHL Grantee, if an employee, ceases to be an AIHL Participant by reason of the termination of his or her employment on the grounds that he or she has been guilty of serious misconduct, or appears either to be unable to pay or to have no reasonable prospect of being able to pay his or her debts or has become bankrupt or has made any arrangement or composition with his or her creditors generally or has been convicted of any criminal offence involving his or her integrity or honesty or on any other ground on which an employer would be entitled to terminate his or her employment summarily; and
 - (g) unless the AIHL Board otherwise determines, the date the AIHL Grantee ceases to be an AIHL Participant for any other reason.
13. In the event of any capitalisation of profits or reserves, rights issue, subdivision or consolidation of AIHL Shares, reduction of the share capital of the Company whilst any AIHL Option remains exercisable, the auditors of the Company shall certify in writing that any corresponding adjustment required to be made to the subscription price or the number of AIHL Shares to be issued on exercise of the AIHL Options or the method of exercise of the AIHL Option is in their opinion fair and reasonable and provided that any such adjustments give the AIHL Participant the same proportion of the equity capital of the Company as to which that person was previously entitled. No such adjustment may be made to the extent that an AIHL Share will be issued at less than its nominal value.
14. Any AIHL Options granted but not exercised may be cancelled if the AIHL Grantee so agrees and new AIHL Options may be granted to the AIHL Grantee provided there are available unissued AIHL Options (excluding the cancelled AIHL Options) within the limits specified in paragraph 3 above and are otherwise granted in accordance with the terms of the AIHL New Scheme.
15. The AIHL Shares issued on exercise of the AIHL Options will on issue be identical to the then existing issued AIHL Shares of the Company.
16. The Company by ordinary resolution of AIHL Shareholders, or by resolution of the AIHL Board, may at any time terminate the operation of the AIHL New Scheme and in such event no further AIHL Options will be offered or granted

under the AIHL New Scheme. Any granted but unexercised AIHL Options shall continue to be exercisable in accordance with their terms of issue after the termination of the AIHL New Scheme.

17. The AIHL Options granted will be personal to the AIHL Grantees and will not be transferable or assignable.
18. Those specific provisions of the AIHL New Scheme which relate to the matters set out in Rule 17.03 of the Listing Rules cannot be altered to the advantage of AIHL Participants, and no changes to the authority of the AIHL Board in relation to any alteration of the terms shall be made, without the prior approval of AIHL Shareholders in general meeting. Any alterations to the terms and conditions of the AIHL New Scheme which are of a material nature, or any change to the terms of AIHL Options granted, must be approved by the AIHL Shareholders in general meeting, except where the alterations take effect automatically under the then existing terms of the AIHL New Scheme. Any such alterations to the terms of the AIHL New Scheme and the AIHL Options will have to comply with the Listing Rules then applicable.
19. On exercise of an AIHL Option by an AIHL Grantee, the Company may at its sole discretion (which discretion may or may not be exercised on request from an AIHL Grantee) elect to cancel such exercised AIHL Option and instead of issuing new AIHL Shares to the AIHL Grantee, pay to the AIHL Grantee the aggregate of:
 - (a) a refund of the subscription price received by the Company from the AIHL Grantee with the notice of exercise of the AIHL Option; and
 - (b) if the average closing price of the AIHL Shares (as stated in the daily quotations sheets issued by the Stock Exchange for the five Business Days immediately preceding the date the Company receives notice of exercise of the AIHL Options) exceeds the subscription price, an amount equal to such excess multiplied by the number of AIHL Shares in respect of which the AIHL Option was exercised.

Once such cancellation is made, the AIHL Grantee shall have no other claim against the Company in connection with any AIHL Option so cancelled. Any payment made by the Company in accordance with this provision shall be charged to retained profits or otherwise in accordance with applicable laws and the generally accepted accounting principles, standards and practices in Hong Kong (including all applicable Statements of Standard Accounting Practice) in force at the time of such payment.

II. RESTRICTION ON THE TIME OF GRANT OF AIHL OPTIONS

A grant of AIHL Options may not be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been published in newspapers. In particular, during the period commencing one month immediately preceding the earlier of:

- (1) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with paragraph 12 of the listing agreement between the Company and the Stock Exchange) for the approval of the Company's interim or annual results; and
- (2) the deadline for the Company to publish its interim or annual results announcement under the listing agreement between the Company and the Stock Exchange,

and ending on the date of the results announcement, no AIHL Option may be granted. The period during which no AIHL Option may be granted will cover any period of delay in the publication of a results announcement.

III. PRESENT STATUS OF THE AIHL NEW SCHEME

The adoption of the AIHL New Scheme is conditional on:

- (a) the AIHL Shareholders passing an ordinary resolution at the AIHL SGM to approve the termination of the AIHL Existing Scheme and adoption of the AIHL New Scheme; and
- (b) the Listing Committee of the Stock Exchange granting approval of the listing of, and permission to deal in, the AIHL Shares to be issued pursuant to any exercise of the AIHL Options and which AIHL Shares must not in aggregate exceed 10% of the issued share capital of the Company as at the date of adoption of the AIHL New Scheme by resolution of the AIHL Shareholders.

If condition (b) above is not satisfied within 2 calendar months after the date of adoption of the AIHL New Scheme, the AIHL New Scheme shall forthwith determine and no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the AIHL New Scheme and the AIHL Existing Scheme shall continue to operate.

Application will be made to the Listing Committee of the Stock Exchange for the approval of the listing of, and permission to deal in, the AIHL Shares which may fall to be issued pursuant to the exercise of the AIHL Options granted under the AIHL New Scheme.

The following is a summary of the terms required to be included in the ACL New Scheme as required by the Listing Rules. References to the Company in this Appendix II shall mean ACL.

I. SUMMARY OF THE PRINCIPAL TERMS OF THE ACL NEW SCHEME

1. The purpose of the ACL New Scheme is to provide the ACL Participants with the opportunity to acquire proprietary interests in the Company and to encourage ACL Participants to work towards enhancing the value of the Company and the ACL Shares for the benefit of the Company and the ACL Shareholders as a whole.
2. All directors (including executive directors, non-executive directors and independent non-executive directors) and employees of the ACL Group and any consultants, advisors, agents, customers, suppliers, service providers, contractors, business partners of any member of the ACL Group or any company or other entity in which the ACL Group or any member of it is interested who, in the sole discretion of the ACL Board, have contributed or will contribute to the ACL Group or any member of it are eligible to participate in the ACL New Scheme.
3. The total number of ACL Shares which may be issued upon exercise of all outstanding ACL Options granted and yet to be exercised under the ACL New Scheme or any other share option scheme adopted by the Company must not exceed 30% of the ACL Shares in issue from time to time. No ACL Option may be granted under the ACL New Scheme or any other share option scheme adopted by the Company if that will result in the 30% limit being exceeded. The number of ACL Shares which may be issued upon exercise of all ACL Options to be granted under the ACL New Scheme shall not (when aggregated with any ACL Shares subject to any other share option scheme(s) of ACL) exceed 10% in nominal amount of the issued share capital of ACL as at the date of adoption of the ACL New Scheme. ACL Shares which have been duly allotted and issued pursuant to the ACL Scheme and the ACL Options which have lapsed in accordance with the terms of the ACL New Scheme will not be counted in calculating the 10% limit. However, the Company may refresh this 10% limit with ACL Shareholders' approval in general meeting with the issue of an appropriate circular to ACL Shareholders provided that each such renewal may not exceed 10% of the ACL Shares in issue as at the date of the ACL Shareholders' approval for refreshing the 10% limit. The Company may seek separate approval by ACL Shareholders in general meeting, with the issue of an appropriate circular to ACL Shareholder, for granting options beyond the 10% limit provided the ACL Options in excess of the limit are granted only to the ACL Participants specially identified by the Company before such approval is sought.

4. Unless approved by ACL Shareholders in the manner set out below in this paragraph, the total number of ACL Shares issued and to be issued upon exercise of the ACL Options granted to each ACL Participant or ACL Grantee (as the case may be) (including both exercised and unexercised ACL Options) under the ACL New Scheme or any other share option scheme adopted by the Company in any 12 month period must not exceed 1% of the ACL Shares in issue. Any further grant of ACL Options which would result in the number of ACL Shares issued as aforesaid exceeding the said 1% limit shall be subject to prior ACL Shareholders' approval with the relevant ACL Participant or ACL Grantee (as the case may be) and his associates (as such term is defined in the Listing Rules) abstaining from voting. A circular must be sent to the ACL Shareholders disclosing the identity of such ACL Participant or ACL Grantee (as the case may be) and the number and terms of the ACL Options granted and to be granted.

5.
 - (a) The period within which the ACL Options must be exercised will be specified by the Company at the time of grant. This period must expire no later than 10 years from the relevant ACL Date of Grant (being the business day on which the ACL Board resolves to make an offer of ACL Option to the relevant ACL Grantee).

 - (b) In the event an ACL Grantee, if an employee, ceases to be an employee of the ACL Group for any reason other than (i) his or her death or (ii) on one or more of the grounds of termination of employment specified in paragraph 12(f) below, the ACL Option shall lapse on the date of cessation of such employment and not be exercisable unless the ACL Board otherwise determines in which event the ACL Option shall be exercisable to the extent and within such period as the ACL Board may determine. The date of cessation of employment shall be the last actual working day on which the ACL Grantee was physically at work with the Company or the relevant Subsidiary, whether salary is paid in lieu of notice or not.

 - (c) In the event the ACL Grantee dies before exercising the ACL Option in full and, if the ACL Grantee is an employee, none of the events for termination of employment under paragraph 12(f) below then exists with respect to such ACL Grantee, the personal representative(s) of the ACL Grantee shall be entitled within a period of 12 months from the date of death to exercise the ACL Option up to the entitlement of such ACL Grantee as at the date of death.

 - (d) If a general offer by way of takeover or otherwise (other than by way of scheme of arrangement pursuant to paragraph 5(e) below) is made to all the holders of ACL Shares (or all such holders other than the offeror, any person controlled by the offeror and any person acting in association or concert with the offeror) and such offer becomes or is declared unconditional

prior to the expiry date of the relevant ACL Option, the Company shall forthwith give notice thereof to the ACL Grantee and the ACL Grantee shall be entitled to exercise the ACL Option either to its full extent or to the extent notified by the Company at any time within such period as shall be notified by the Company.

- (e) If a general offer for ACL Shares by way of scheme of arrangement is made to all the holders of ACL Shares and has been approved by the necessary number of holders of ACL Shares at the requisite meetings, the Company shall forthwith give notice thereof to the ACL Grantee and the ACL Grantee may at any time thereafter (but before such time as shall be notified by the Company) exercise the ACL Option either to its full extent or to the extent notified by the Company.
- (f) In the event a notice is given by the Company to the ACL Shareholders to convene an ACL Shareholders' meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall forthwith give notice thereof to the ACL Grantee and the ACL Grantee may at any time thereafter (but before such time as shall be notified by the Company) exercise the ACL Option either to its full extent or to the extent notified by the Company, and the Company shall as soon as possible and in any event no later than three days prior to the date of the proposed shareholders' meeting, allot, issue and register in the name of the ACL Grantee such number of fully paid ACL Shares which fall to be issued on exercise of such ACL Option.
- (g) In the event of a compromise or arrangement, other than a scheme of arrangement contemplated in paragraph 5(e) above, between the Company and its members and/or creditors being proposed in connection with a scheme for the reconstruction or amalgamation of the Company, the Company shall give notice thereof to all ACL Grantees on the same day as it first gives notice of the meeting to its members and/or creditors to consider such a scheme or arrangement and the ACL Grantee may at any time thereafter but before such time as shall be notified by the Company exercise the ACL Option either to its full extent or to the extent notified by the Company, and the Company shall as soon as possible and in any event no later than three days prior to the date of the proposed meeting, allot, issue and register in the name of the ACL Grantee such number of fully paid ACL Shares which fall to be issued on exercise of such ACL Option.
- (h) Upon the occurrence of any of the events referred to in paragraphs 5(d), (e), (f) and (g) above, the Company may in its discretion and notwithstanding the terms of the relevant ACL Option also give notice to an ACL Grantee that his or her ACL Option may be exercised at any time within such

period as shall be notified by the Company and/or to the extent (not being less than the extent to which it could then be exercised in accordance with its terms) notified by the Company. If the Company gives such notice, the balance of the ACL Option shall lapse.

- 6 Each grant of ACL Options to any ACL Director, chief executive or substantial shareholder of the Company, or any of their respective associates (as such term is defined in the Listing Rules) shall be subject to the prior approval of the independent non-executive directors of the Company (excluding any independent non-executive director who is an ACL Grantee of the ACL Option in question). Where any grant of ACL Options to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates (as such term is defined in the Listing Rules), would result in the ACL Shares issued and to be issued upon exercise of all ACL Options already granted and to be granted (including ACL Options exercised, cancelled and outstanding) to such person in the 12 month period up to and including the date of such grant:
- (a) representing in aggregate over 0.1% (or such other percentage as may from time to time be specified by the Stock Exchange) of the ACL Shares in issue; and
 - (b) having an aggregate value, based on the closing price of the ACL Shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of each grant, in excess of HK\$5 million (or such other percentage as may from time to time be specified by the Stock Exchange),

such grant of ACL Options shall be subject to prior approval by the ACL Shareholders. Any vote taken at the meeting to approve the grant of such ACL Options must be taken on a poll. All connected persons (as defined in the Listing Rules) of the Company shall abstain from voting at such general meeting, except that any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular to be sent to the ACL Shareholders in connection therewith.

7. Unless otherwise determined by the ACL Board at its sole discretion, the ACL New Scheme does not require a minimum period for which an ACL Option must be held nor a performance target which must be achieved before an ACL Option can be exercised. In the event that the ACL Board resolves to impose such term(s) on the grant of an ACL Option which decision may vary on a case by case basis, such terms should be stated in the letter containing the offer to the relevant ACL Participant and no such term(s) shall be imposed the result of which will be to the advantage of the ACL Participants.

8. The amount payable on acceptance of an ACL Option is HK\$1 and an offer shall remain open for acceptance by the ACL Participant for a period of 30 days from the date on which the letter containing the offer is delivered to that ACL Participant.
9. The subscription price for the ACL Shares the subject of an ACL Option shall be no less than the higher of (i) the closing price of the ACL Shares as stated in the daily quotations sheets issued by the Stock Exchange on the ACL Date of Grant; (ii) the average closing price of the ACL Shares as stated in the daily quotations sheets issued by the Stock Exchange for the 5 business days immediately preceding the ACL Date of Grant; and (iii) the nominal value of an ACL Share on the ACL Date of Grant. The subscription price will be established by the ACL Board at the time the ACL Option is offered to the relevant ACL Participant.
10. The ACL Shares to be allotted and issued upon the exercise of an ACL Option shall be subject to all the provisions of the memorandum and bye-laws of the Company in force at the relevant time and will rank *pari passu* with the fully paid ACL Shares in issue on the date the name of the ACL Grantee is registered on the register of members of the Company. Prior to the ACL Grantee being registered on the register of members of the Company, the ACL Grantee shall not have any voting rights, or rights to participate in any dividends or distributions of any rights arising on a liquidation of the Company, in respect of the ACL Shares to be issued upon the exercise of the ACL Option.
11. The ACL New Scheme shall be valid and effective for a period of ten years commencing on the date of adoption of the ACL New Scheme by resolution of the ACL Shareholders.
12. An ACL Option shall lapse automatically and not be exercisable, to the extent not already exercised, on the earliest of:
 - (a) the expiry of the ACL Option period;
 - (b) the expiry of the period for exercising the ACL Option as referred to in paragraphs 5(b), (c), (d), (f) or (g) above;
 - (c) subject to the scheme of arrangement referred to in paragraph 5(e) above becoming effective, the expiry of the period for exercising the ACL Option as referred to in paragraph 5(e) above;
 - (d) subject to paragraph 5(f) above, the date of commencement of the winding up of the Company;

- (e) the date on which the ACL Grantee sells, transfers, charges, mortgages, encumbers or creates any interest in favour of any other person, over or in relation to any ACL Option in breach of the ACL New Scheme;
 - (f) the date on which the ACL Grantee, if an employee, ceases to be an ACL Participant by reason of the termination of his or her employment on the grounds that he or she has been guilty of serious misconduct, or appears either to be unable to pay or to have no reasonable prospect of being able to pay his or her debts or has become bankrupt or has made any arrangement or composition with his or her creditors generally or has been convicted of any criminal offence involving his or her integrity or honesty or on any other ground on which an employer would be entitled to terminate his or her employment summarily; and
 - (g) unless the ACL Board otherwise determines, the date the ACL Grantee ceases to be an ACL Participant for any other reason.
13. In the event of any capitalisation of profits or reserves, rights issue, subdivision or consolidation of ACL Shares, reduction of the share capital of the Company whilst any ACL Option remains exercisable, the auditors of the Company shall certify in writing that any corresponding adjustment required to be made to the subscription price or the number of ACL Shares to be issued on exercise of the ACL Options or the method of exercise of the ACL Option is in their opinion fair and reasonable and provided that any such adjustments give the ACL Participant the same proportion of the equity capital of the Company as to which that person was previously entitled. No such adjustment may be made to the extent that an ACL Share will be issued at less than its nominal value.
14. Any ACL Options granted but not exercised may be cancelled if the ACL Grantee so agrees and new ACL Options may be granted to the ACL Grantee provided there are available unissued ACL Options (excluding the cancelled ACL Options) within the limits specified in paragraph 3 above and are otherwise granted in accordance with the terms of the ACL New Scheme.
15. The ACL Shares issued on exercise of the ACL Options will on issue be identical to the then existing issued ACL Shares of the Company.
16. The Company by ordinary resolution of ACL Shareholders, or by resolution of the ACL Board, may at any time terminate the operation of the ACL New Scheme and in such event no further ACL Options will be offered or granted under the ACL New Scheme. Any granted but unexercised ACL Options shall continue to be exercisable in accordance with their terms of issue after the termination of the ACL New Scheme.

17. The ACL Options granted will be personal to the ACL Grantees and will not be transferable or assignable.
18. Those specific provisions of the ACL New Scheme which relate to the matters set out in Rule 17.03 of the Listing Rules cannot be altered to the advantage of ACL Participants, and no changes to the authority of the ACL Board in relation to any alteration of the terms shall be made, without the prior approval of ACL Shareholders in general meeting. Any alterations to the terms and conditions of the ACL New Scheme which are of a material nature, or any change to the terms of ACL Options granted, must be approved by the ACL Shareholders in general meeting, except where the alterations take effect automatically under the then existing terms of the ACL New Scheme. Any such alterations to the terms of the ACL New Scheme and the ACL Options will have to comply with the Listing Rules then applicable.
19. On exercise of an ACL Option by an ACL Grantee, the Company may at its sole discretion (which discretion may or may not be exercised on request from an ACL Grantee) elect to cancel such exercised ACL Option and instead of issuing new ACL Shares to the ACL Grantee, pay to the ACL Grantee the aggregate of:
 - (a) a refund of the subscription price received by the Company from the ACL Grantee with the notice of exercise of the ACL Option;
 - (b) if the average closing price of the ACL Shares (as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date the Company receives notice of exercise of the ACL Options) exceeds the subscription price, an amount equal to such excess multiplied by the number of ACL Shares in respect of which the ACL Option was exercised.

Once such cancellation is made, the ACL Grantee shall have no other claim against ACL in connection with any ACL Option so cancelled. Any payment made by ACL in accordance with this provision shall be charged to retained profits or otherwise in accordance with applicable laws and the generally accepted accounting principles, standards and practices in Hong Kong (including all applicable Statements of Standard Accounting Practice) in force at the time of such payment.

II. RESTRICTION ON THE TIME OF GRANT OF ACL OPTIONS

A grant of ACL Options may not be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information

has been published in newspapers. In particular, during the period commencing one month immediately preceding the earlier of:

- (1) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with paragraph 12 of the listing agreement between the Company and the Stock Exchange) for the approval of the Company's interim or annual results; and
- (2) the deadline for the Company to publish its interim or annual results announcement under the listing agreement between the Company and the Stock Exchange,

and ending on the date of the results announcement, no ACL Option may be granted. The period during which no ACL Option may be granted will cover any period of delay in the publication of a results announcement.

III. PRESENT STATUS OF THE ACL NEW SCHEME

The adoption of the ACL New Scheme is conditional on:

- (a) the AIHL Shareholders passing an ordinary resolution at a special general meeting to approve the adoption of the ACL New Scheme;
- (b) the ACL Shareholders passing an ordinary resolution at the ACL SGM to approve the termination of the ACL Existing Scheme and adoption of the ACL New Scheme; and
- (c) the Listing Committee of the Stock Exchange granting approval of the listing of, and permission to deal in, the ACL Shares to be issued pursuant to any exercise of the ACL Options and which ACL Shares must not in aggregate exceed 10% of the issued share capital of ACL as at the date of adoption of the ACL New Scheme by resolution of the ACL Shareholders.

If conditions (a) and (c) above are not satisfied within 2 calendar months after the date of adoption of the ACL New Scheme by the ACL Shareholders, the ACL New Scheme shall forthwith determine and no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the ACL New Scheme and the ACL Existing Scheme shall continue to operate. An ordinary resolution will be proposed at the AIHL SGM to approve the matter referred to in condition (a) above

Application will be made to the Listing Committee of the Stock Exchange for the approval of the listing of, and permission to deal in, the ACL Shares which may fall to be issued pursuant to the exercise of the ACL Options granted under the ACL New Scheme.

This is the explanatory statement to provide requisite information to AIHL Shareholders for their consideration of the proposed general mandate to be granted to the AIHL Directors to purchase securities of the Company as required by the relevant provision set out in the Listing Rules to regulate the purchase by companies with primary listings on the Stock Exchange of their own securities on the Stock Exchange (“Share Buy Back Rules”).

1. SHARE BUY BACK

The Share Buy Back Rules permit companies whose primary listings are on the Stock Exchange to purchase their securities fully paid-up on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

(a) Source of funds

Purchases must be funded out of funds which are legally available for the purpose and in accordance with the memorandum of association and bye-laws of the Company and the Companies Act 1981 of Bermuda (the “Companies Act”). Under the Companies Act, a company may only purchase its securities out of capital paid up on the securities to be purchased or out of the funds of the company which would otherwise be available for dividend or distribution or out of the proceeds of a fresh issue of shares made for the purpose.

Any amount of premium payable on a purchase over the par value of the shares may only be effected out of funds of the company which would otherwise be available for dividend or distribution or out of the company’s share premium account.

Pursuant to the general mandate to purchase securities, purchase would be funded entirely from the Company’s available cash flow or working capital facilities which will be funds legally available under Bermuda law, the memorandum of association and bye-laws of the Company for the purpose.

(b) Share capital

As at the Latest Practicable Date, the issued ordinary share capital of the Company comprised 941,080,745 shares of HK\$0.20 each and the Company has 189,334,149 outstanding Warrants. On the basis of such figures and assuming no new AIHL Shares and Warrants will be issued and no further AIHL Shares and Warrants will be purchased up to the date of passing such resolution to adopt the purchase mandate, the Company would be allowed under the purchase mandate to purchase up to 10% of the AIHL Shares in issue and 10% of the outstanding Warrants at the date of passing such resolution and with a maximum of 94,108,074 AIHL Shares and 18,933,414 Warrants.

(c) Connected Parties

No connected person of the Company has notified the Company that he has a present intention to sell any securities to the Company nor has any such connected person undertaken not to sell any of the securities held by him to the Company in the event that the resolution for approving the grant of the general mandate to purchase securities is passed.

2. REASONS FOR THE PURCHASE

The AIHL Directors believe that the general mandate to purchase securities is in the best interests of the Company and the AIHL Shareholders. An exercise of the general mandate to purchase securities may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the value of the Company's securities and/or earnings per AIHL Share and will only be made when the AIHL Directors believe that a purchase will benefit the Company and the AIHL Shareholders.

3. FUNDING OF PURCHASES

An exercise of the general mandate to purchase securities in full could have a material adverse impact on the working capital and gearing position of the Company compared with that as at 30th June, 2001, being the date of its latest published audited accounts. The AIHL Directors do not, however, intend to make any purchase in circumstances that would have a material adverse impact on the working capital or gearing position of the Company.

4. SHARE PRICES

The highest and lowest prices at which the AIHL Shares and Warrants have traded on the Stock Exchange in each of the 12 calendar months preceding the date of this circular were as follows:

| | AIHL Shares | | Warrants | |
|----------------|------------------------|-----------------------|------------------------|-----------------------|
| | Highest <i>HK\$</i> | Lowest <i>HK\$</i> | Highest <i>HK\$</i> | Lowest <i>HK\$</i> |
| August 2001 | 0.149 | 0.118 | 0.020 | 0.020 |
| September 2001 | 0.137 | 0.115 | 0.010 | 0.010 |
| October 2001 | 0.127 | 0.114 | no trading | no trading |
| November 2001 | 0.126 | 0.103 | no trading | no trading |
| December 2001 | 0.147 | 0.104 | 0.036 | 0.013 |
| January 2002 | 0.118 | 0.100 | 0.016 | 0.013 |
| February 2002 | 0.106 | 0.086 | 0.013 | 0.010 |
| March 2002 | 0.111 | 0.080 | 0.012 | 0.010 |
| April 2002 | 0.090 | 0.075 | no trading | no trading |
| May 2002 | 0.275 | 0.109 | 0.050 | 0.020 |
| June 2002 | 0.205 | 0.180 | 0.034 | 0.014 |
| July 2002 | 0.183 | 0.157 | 0.005 | 0.005 |

5. DISCLOSURE OF INTERESTS

None of the AIHL Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell AIHL Shares or Warrants to the Company or its subsidiaries in the event that the proposed purchase mandate is granted to the AIHL Directors by the AIHL Shareholders.

The AIHL Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the powers of the Company to make purchases pursuant to the general mandate to purchase AIHL Shares and Warrants in accordance with the Listing Rules and the applicable laws of Bermuda.

6. HONG KONG CODES ON TAKEOVERS AND MERGERS AND SHARE REPURCHASES

If on the exercise of the power to purchase securities pursuant to the purchase mandate, an AIHL Shareholder's proportionate interest in the voting rights of the Company increase, such increase will be treated as an acquisition and may give rise to an obligation to make a mandatory offer in accordance with Rule 26 of Takeover Code. Accordingly, an AIHL Shareholder or a group of AIHL Shareholders acting in concert could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeover Code.

As at the Latest Practicable Date, the Company had the following substantial shareholders:

| Shareholder's Name | Number of AIHL Shares | | % of issued share capital of the Company |
|-------------------------|-----------------------|-----------------------------|--|
| | Personal interests | Corporate interests | |
| Hung Kin Sang, Raymond | 3,280,000 | 453,984,584 (<i>Note</i>) | 48.59% |
| Hung Wong Kar Gee, Mimi | 8,870,056 | 453,984,584 (<i>Note</i>) | 49.18% |

Note: These AIHL Shares are held by the following companies:

| Shareholder's Name | Number of AIHL Shares | % of issued share capital of the Company |
|-------------------------|-----------------------|--|
| Malcom Trading Inc. | 43,992,883 | 4.67% |
| Primore Co. Inc. | 2,509,266 | 0.27% |
| Capita Company Inc. | 359,153,435 | 38.16% |
| Applied (China) Limited | 48,329,000 | 5.14% |

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. Applied (China) Limited is a subsidiary of the Company.

In the event that the AIHL Directors exercised in full the power to purchase AIHL Shares which are proposed to be granted pursuant to the purchase mandate and assuming that no additional AIHL Shares are issued as a result of exercise of the Warrants, the shareholding of Hung Kin Sang, Raymond, Hung Wong Kar Gee, Mimi and Capita Company Inc. would be increased to 53.99%, 54.65% and 42.4% respectively. Such increase will give rise to an obligation to make a mandatory offer under Rule 26 of the Takeover Code. The AIHL Directors have no present intention to exercise the power to purchase AIHL Shares to such extent as would result in takeover obligations.

Save as aforesaid, the AIHL Directors are not aware of any AIHL Shareholder or group of AIHL Shareholders who will become obliged to make a mandatory offer under the Takeover Code as a consequence of any purchases pursuant to the exercise of the power to purchase AIHL Shares.

7. SECURITIES REPURCHASES BY THE COMPANY

The Company has not purchased any of the AIHL Shares and Warrants (whether on the Stock Exchange or otherwise) during the six calendar months preceding the date of this circular.



APPLIED INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

NOTICE is hereby given that a special general meeting of Applied International Holdings Limited will be held at 10:00 a.m. on 16th September, 2002 at Suite 4103-5, 41st Floor, Far East Finance Centre, 16 Harcourt Road, Central, Hong Kong for the purpose of considering and, if thought fit, passing (with or without amendments) the following resolutions which will be proposed as ordinary resolutions:

ORDINARY RESOLUTIONS

1. **“THAT** conditional on the Listing Committee of the Stock Exchange of Hong Kong Limited granting approval of the listing of and permission to deal in the shares to be issued pursuant to the exercise of any options granted under the share option scheme of the Company in the form produced before this meeting and for the purpose of identification marked “A” and signed by the Chairman of the meeting (“AIHL Share Option Scheme”):
 - (i) the existing share option scheme of the Company adopted on 28th May, 1997 be and is hereby terminated; and
 - (ii) the AIHL Share Option Scheme be and is hereby approved and adopted and the directors of the Company be and are hereby authorised to grant options, and to allot and issue shares pursuant to the exercise of any options granted, under the AIHL Share Option Scheme.”

2. **“THAT** conditional on (a) the shareholders of Applied (China) Limited (“ACL”) approving the share option scheme of ACL in the form produced before this meeting and for the purpose of identification marked “B” and signed by the Chairman of the meeting (“ACL Share Option Scheme”) and (b) the Listing Committee of The Stock Exchange of Hong Kong Limited granting approval of the listing of and permission to deal in the shares to be issued pursuant to the exercise of any options granted under it, the terms and the adoption by ACL of the ACL Share Option Scheme be and are hereby approved.”

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3. **“THAT:**

- (A) subject to paragraph 3(C) below, the exercise by the directors of the Company (the “Directors”) during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options (including warrants, bonds and debentures convertible into shares of the Company) which might require the exercise of such powers be and is hereby generally and unconditionally approved;
- (B) the Directors be and are hereby authorised during the Relevant Period to make or grant offers, agreements and options (including warrants, bonds and debentures convertible into shares of the Company) which might require the exercise of such powers during or after the end of the Relevant Period;
- (C) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to the approval in paragraph 3(A) and (B), otherwise than pursuant to a Rights Issue (as hereinafter defined) or pursuant to the exercise of any options granted under the share option scheme adopted by the Company or an issue of shares upon the exercise of subscription rights attached to the warrants which might be issued by the Company or an issue of shares in lieu of the whole or part of a dividend on shares or any scrip dividend scheme or similar arrangement in accordance with the articles of association of the Company, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this resolution and this approval shall be limited accordingly; and
- (D) for the purposes of this resolution:

“Relevant Period” means the period from the time of the passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the memorandum and by-laws of the Company or any applicable law of Bermuda to be held; and
- (iii) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting.

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“Rights Issue” means an offer of shares open for a period fixed by the directors of the Company to holders of shares on the register of members on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of any relevant jurisdiction, or the requirements of any recognised regulatory body or any stock exchange).”

4. **“THAT:**

- (A) subject to paragraph 4(C) below, the exercise by the directors of the Company (“Directors”) during the Relevant Period (as hereinafter defined) of all powers of the Company to purchase (i) issued shares in the capital of the Company and (ii) warrants or other rights to subscribe for Shares in the capital of the Company in each case on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) or any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, and that the exercise by the Directors of all powers of the Company to purchase such securities are subject to and in accordance with all applicable laws, be and is hereby, generally and unconditionally approved;
- (B) the approval in paragraph 4(A) shall be in addition to any other authorisation given to the directors of the Company and shall authorise the directors of the Company on behalf of the Company during the Relevant Period to procure the Company to purchase its shares and warrants at a price determined by the directors of the Company;
- (C) the aggregate nominal amount of share capital of the Company purchased or agreed conditionally or unconditionally to be purchased by the Company pursuant to the approval in paragraph 4(A) during the Relevant Period shall not exceed (i) 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing this resolution and (ii) 10% of the outstanding warrants at the time of passing this resolution; and
- (D) for the purposes of this resolution:

“Relevant Period” means the period from the time of the passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;

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- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the memorandum and bye-laws of the Company or any applicable law of Bermuda to be held; and
 - (iii) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting.”
5. **“THAT** conditional upon the passing of the ordinary resolutions numbered 3 and 4 in the notice convening a meeting of the Company dated 28th August, 2002, the aggregate nominal amount of the shares in the capital of the Company which are purchased by the Company pursuant to and in accordance with the said resolution numbered 4 shall be added to the aggregate nominal amount of the share capital of the Company that may be allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to and in accordance with the resolution numbered 3 set out in the notice of meeting dated 28th August, 2002.”

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

Hong Kong, 28th August, 2002

Head office and principal place of business:

Suite 4103-5

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, Computershare Hong Kong Investor Services 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.