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## **APPLIED INTERNATIONAL HOLDINGS LIMITED**

*(incorporated in Bermuda with limited liability)*

*Directors:*

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

*Principal Office in Hong Kong:*

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

*Non-Executive Director:*

Soo Hung Leung, Lincoln

*Independent Non-executive Directors:*

Lo Yun Tai  
Lun Tsan Kau

25th October, 2002

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

Dear Sir or Madam,

### **PROPOSALS FOR GENERAL MANDATE TO ISSUE SECURITIES AND GENERAL MANDATE TO REPURCHASE SECURITIES**

#### **INTRODUCTION**

At the Special General Meeting of Applied International Holdings Limited (the "Company") held on 16th September 2002 general mandates were granted to the Directors of the Company ("the Directors") to repurchase, on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), shares of HK\$0.20 each in the capital of the Company ("Shares") up to a maximum of 10% of the issued share capital of the Company as at 16th September 2002 ("Repurchased Shares") and to add such Repurchased Shares to the general mandate granted

to the Directors to allot, issue and otherwise deal with additional Shares in the capital of the Company. These general mandates will expire at the conclusion of the Annual General Meeting of the Company for 2002 to be held on 25th November, 2002 (the “Annual General Meeting”).

The Directors propose to seek your approval of resolutions to be proposed at the Annual General Meeting to grant new general mandates to the Directors to allot, issue and otherwise deal with additional Shares in the capital of the Company and to make or grant offers, agreements and options which would or might require the exercise of such power to repurchase Shares.

This letter serves as an explanatory statement to provide shareholders of the Company (“Shareholders”) with all the information reasonably necessary to enable them to make an informed decision on whether to vote for or against the resolutions proposed.

### **GENERAL MANDATE TO ISSUE SECURITIES**

At the Annual General Meeting, an ordinary resolution will be proposed, inter alia, to grant the Directors a general mandate to allot, issue, and deal with other than by way of rights, Shares, and to make or grant offers, agreements and options with an aggregate nominal value not exceeding 20% of the aggregate nominal amount of the share capital of the Company in issue at the date of passing the resolution. The mandate to issue securities will give the Directors greater flexibility to issue securities where this is in the interests of the Company.

### **GENERAL MANDATE TO REPURCHASE SECURITIES**

At the Annual General Meeting, an ordinary resolution will be proposed that the Directors be given a general mandate to exercise all powers of the Company to repurchase Shares subject to the criteria set out in this circular. In particular, Shareholders should note that the maximum number of Shares that may be repurchased pursuant to the mandate will be such number of Shares representing 10% of the share capital of the Company in issue on the date of passing the resolution.

The authority relates only to purchases made on the Stock Exchange, or otherwise in accordance with the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (“the Listing Rules”). For your information, on 25th October, 2002 (being the latest practicable date prior to printing of this letter) there were in issue an aggregate of 941,080,745 Shares. On the basis of these figures, not more than 94,108,074 Shares may be purchased by the Company. In addition, Shareholders should note that the general mandate covers purchases made or agreed to be made only during the period ending on the earliest of the date of the next annual general meeting of members of the Company, the date by which the next annual general meeting of members of the Company is required to be held by Bermuda law or the date upon which such authority is revoked or varied by ordinary resolution of the Shareholders in general meeting.

While it is not possible to anticipate in advance any specific circumstance in which the Directors might think it appropriate to repurchase Shares, such a repurchase would be effected where the resulting reduction in the capital of the Company was considered beneficial. The Directors believe that an ability to repurchase Shares gives the Company additional flexibility that would be beneficial, particularly given the current financial environment. Shareholders can be assured that the Directors would only make such purchases in circumstances when they consider them to be in the interests of the Company and/or because they consider that the Shares can be purchased on favourable terms. Depending on the circumstances, certain repurchases of Shares could have a material adverse impact on the working capital and gearing position of the company. No repurchase would be made in circumstances that would have a material adverse impact on the working capital or gearing position of the Company (as compared with the position disclosed in the latest published audited financial statements as at 30th June, 2002).

The Company is empowered by its Memorandum of Association and Bye-laws to repurchase its Shares. Repurchases must be funded out of funds legally available for the purpose in accordance with the Company's Memorandum of Association and Bye-laws and the laws of Bermuda. Bermuda law provides that the amount of capital paid in connection with a share repurchase may only be paid out of the capital paid up on the relevant shares, or out of 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 that purpose. The amount of premium payable on repurchase may only be paid out of either the funds of the Company that would otherwise be available for distribution or dividend or out of the share premium or contributed surplus accounts of the Company. Should the Directors consider it desirable, they would be able to finance the purchase out of funds borrowed against any of the above-mentioned accounts. In addition, under Bermuda law, in connection with any purchase of Shares, two Directors of the Company would be required to swear an affidavit on the date on which the repurchase takes effect or within 30 days after the end of each calendar quarter to the effect that either the Company is solvent or that all creditors of the Company have agreed in writing to the purchase. Under Bermuda law, the Shares so repurchased will be treated as cancelled, but the aggregate amount of authorised share capital would not be reduced. The Company is required by the Listing Rules to cancel and destroy all documents of title representing the repurchased Shares as soon as reasonably practicable after settlement of any such repurchase.

## **DIRECTORS AND CONNECTED PERSONS**

None of the Directors nor, to the best of the knowledge and belief of the Directors having made all reasonable enquiries, any of the associates of any of the Directors, has any present intention, in the event that the proposed repurchase mandate is approved by Shareholders, to sell Shares to the Company.

No persons who are connected persons of the Company as defined in the Listing Rules, have notified the Company that they have a present intention to sell Shares to the Company,

nor have they undertaken not to sell any of the Shares held by them to the Company in the event that the Company is authorised to make purchases of Shares. In accordance with the Listing Rules, the Company shall not knowingly purchase Shares from a connected person on the Stock Exchange.

## **LISTING RULES**

The Directors have undertaken to the Stock Exchange to exercise the powers of the Company to make purchase pursuant to the proposed resolution granting the repurchase mandate, in accordance with the Listing Rules and all applicable laws of Bermuda, the jurisdiction in which the Company is incorporated, and in accordance with the regulations set out in the Memorandum of Association and Bye-laws of the Company.

The Listing Rules impose the following restrictions on the Company in relation to any repurchase of securities and impose certain reporting requirements. In particular:

- all shares to be repurchased on the Stock Exchange by the Company must be fully paid-up.
- the Company shall not repurchase securities on the Stock Exchange in any one calendar month numbering more than 25% of the aggregate number of that kind of securities which were traded on the Stock Exchange in the preceding calendar month by reference to the Stock Exchange’s daily quotation sheets for the previous month;
- the Company shall not purchase securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time;
- the Company shall not knowingly repurchase securities on the Stock Exchange from a connected person, that is, a Director of substantial shareholder or any of their respective associates as defined in the Listing Rules, and a connected person shall not knowingly sell his securities to the Company on the Stock Exchange;
- the Company shall procure that any broker appointed by the Company to effect the repurchase of securities shall disclose to the Stock Exchange such information as regards those securities repurchases undertaken on behalf of the Company as may be requested by the Stock Exchange;
- the Company shall not repurchases securities on the Stock Exchange at any time after a price sensitive development has taken place, or has been the subject of a decision, until such time as the price sensitive information has been made publicly available, and in particular, during the one month period to the announcement of the results of the Company; and

- the Company shall not repurchase securities on the Stock Exchange if such repurchase would result in less than 25% of the Company’s securities listed on the Stock Exchange remaining in public hands.

The reporting requirements contained in the Listing Rules specify that, inter alia, repurchases of securities on the Stock Exchange must be reported to the Stock Exchange not later than 9:00 a.m. on the following business day. In addition, the Company’s annual report is required to disclose details regarding repurchases of securities made during the year, including the number of repurchased securities, the unit purchase price or the highest and lowest price paid, and the aggregate prices paid on a monthly basis.

The Company will be prohibited from making a new issue of securities or announcing any such proposal for a period of 30 days after it has repurchased any securities, whether on the Stock Exchange or otherwise, unless such issue is pursuant to the exercise of share options or similar instruments requiring the Company to issue securities which were outstanding prior to such repurchase by the Company, without the prior approval of the Stock Exchange.

The listing on the Stock Exchange of all securities repurchased by the Company pursuant to the general mandate will be automatically cancelled, irrespective of whether or not such repurchase took place on the Stock Exchange. The Company is obliged to ensure that the certificates in respect of the repurchased securities are cancelled and destroyed as soon as reasonably practicable after the settlement date of the relevant transaction. If the sixth ordinary resolution set out in the notice convening the Annual General Meeting is passed, the Company may, however, issue new shares, equivalent in number to those repurchased, in addition to any new securities issued pursuant to the authority given by the general mandate under the fourth ordinary resolution.

The Stock Exchange has the right to prohibit the Company from making any repurchases of securities on the Stock Exchange if it considers that the Company has committed a breach of any of the Listing Rules which are applicable to the Company.

## **SUBSTANTIAL SHAREHOLDERS**

If as a result of a share repurchase, a shareholder’s proportionate interest in the voting capital of the Company increases, such increase will be treated as an acquisition for the purposes of the Hong Kong Code on Takeovers and Mergers (“Code”) and, if such increase results in a change of control, may in certain circumstances give rise to an obligation to make a general offer for Shares under Rule 26 of the Code.

As at 25th October 2002, being the day before the printing of the circular, the Company had the following substantial shareholders:

Shareholder's Name	Number of 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 Shares are held by the following companies:

Shareholder's Name	Number of 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%
iQuorum Cybernet 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.

In the event that the Directors exercised in full the power to purchase Shares which are proposed to be granted pursuant to the purchase mandate and assuming that no additional Shares are issued as a result of exercise of the outstanding warrants of the Company, 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 Directors have no present intention to exercise the power to purchase Shares to such extent as would result in takeover obligations.

Save as aforesaid, the Directors are not aware of any Shareholders or group of 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 Shares.

During the 12 months preceding the date of this circular, no Shares and no Warrants have been repurchased by the Company.

During the 12 months preceding 25th October, 2002 (being the latest practicable date prior to printing of this circular), the highest and lowest traded prices for Shares on the Stock Exchange were as follows:

Month	Shares		Warrants	
	Highest	Lowest	Highest	Lowest
	HK\$	HK\$	HK\$	HK\$
<b>2001</b>				
October	0.127	0.114	–	–
November	0.126	0.100	–	–
December	0.147	0.104	0.036	0.013
<b>2002</b>				
January	0.118	0.100	0.016	0.013
February	0.106	0.086	0.013	0.010
March	0.111	0.080	0.012	0.010
April	0.090	0.075	–	–
May	0.275	0.109	0.050	0.020
June	0.205	0.178	0.034	0.014
July	0.183	0.157	0.005	0.005
August	0.156	0.110	0.010	0.010
September	0.163	0.128	0.008	0.008

## RECOMMENDATION

The Directors consider that: (i) the grant of a general mandate to issue securities; (ii) the grant of a general mandate to repurchase securities; and (iii) to allow the number of Shares repurchased to be added to the number of Shares that may be allotted pursuant to the general mandate to issue securities are each in the interests of the Company and, accordingly, recommend all Shareholders to vote in favour of passing the resolutions to be proposed at the Annual General Meeting.

## ANNUAL GENERAL MEETING

Enclosed with the Annual Report is a notice convening the Annual General Meeting of the Company to be held at The Oregon Room, The American Club, 47th Floor, Two Exchange Square, Central, Hong Kong, at 10:00 a.m. on Monday, 25th November, 2002 for the following purposes:

1. To receive and consider the reports of the Directors and Auditors and the Statements of Accounts for the year ended 30th June, 2002.
2. To re-elect Mr. Soo Hung Leung, Lincoln as Director and authorise the Directors to fix his remuneration; and

3. To appoint Auditors and authorise the Directors to fix their remuneration.

As special business to consider and if thought fit, pass the following ordinary resolutions:

4. to grant a general mandate to issue securities;
5. to grant a general mandate to repurchase securities;
6. to allow the number of Shares repurchased to be added to the number of Shares that may be allotted pursuant to the general mandate to issue securities; and

A form of proxy for the Annual General Meeting is enclosed for your use. If you are unable to attend the Meeting, you are requested to complete and return the form of proxy to the Company's principal place of business in Hong Kong at 41st Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible, but in any event so as to arrive not less than 48 hours before the time appointed for holding the Meeting or adjourned Meeting. Return of the form of proxy will not preclude you from attending and voting at the Meeting if you so wish.

#### **RESPONSIBILITY STATEMENT**

The Directors have taken all reasonable care to ensure that the facts stated and opinions expressed herein relating to the Company are true and accurate in all material respects, and that no information has been omitted which would render any statement herein misleading. The Directors individually and collectively accept responsibility accordingly.

Yours faithfully,  
**Hung Kin Sang, Raymond**  
*Chairman and Managing Director*