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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

28 October 2003

*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 annual general meeting of Applied International Holdings Limited (the "Company") held on 25 November 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 (the "Shares") up to a maximum of 10% of the issued share capital of the Company as at 25 November 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 2003 to be held on 26 November 2003 (the “Annual General Meeting”).

The Directors propose to seek your approval of resolutions to be proposed at the Annual General Meeting which include, amongst others, 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, securities convertible into Shares and options which would or might require the exercise of such power and to repurchase securities of the Company.

This letter serves as an explanatory statement to provide shareholders of the Company (“the 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, securities convertible into Shares 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. For your information, on 28 October 2003 (being the latest practicable date prior to printing of this circular) there were in issue an aggregate of 941,080,745 Shares. On the basis of these figures, not more than 188,216,149 Shares may be issued if the general mandate to issue securities is granted. 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 securities of the Company subject to the criteria set out in this circular. In particular, Shareholders should note that the maximum number of Shares and warrants 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 and such number of warrants representing 10% of the warrants of the Company in issue respectively 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 28 October 2003 (being the latest practicable date prior to printing of this letter) there were in issue an aggregate of 941,080,745 Shares and 189,334,149 Warrants which entitle the holders to subscribe for a fully-paid Share for every warrant they hold at the subscription price of HK\$1.00 (subject to adjustment) at any time between 20 December 2001 and 30 April 2004 (“the Warrant”). On the basis of these figures, and assuming no Shares or Warrant will be issued and/or purchased

up to the date of the Annual General Meeting not more than 94,108,074 Shares and 18,933,414 Warrants 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.

The Directors believe that the ability to repurchase securities of the Company 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 securities of the Company can be purchased on favourable terms. Depending on the circumstances, certain repurchases of securities of the Company 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 30 June 2003).

The Company is empowered by its Memorandum of Association and Bye-laws to repurchase its Shares. Repurchases will 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 account of the Company.

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 and/or Warrants 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 and/or Warrants to the Company, nor have they undertaken not to sell any of the Shares and/or Warrants held by them to the Company in the event that the Company is authorised to make purchases of Shares and/or Warrants. In accordance with the Listing Rules, the Company shall not knowingly purchase Shares and/or Warrants 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 purchases 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.

SUBSTANTIAL SHAREHOLDERS

If as a result of repurchases of securities, a shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purposes of the The Codes on Takeovers and Mergers and Share Repurchase ("the 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 28 October 2003, being the latest practicable date prior to the printing of this 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 |
|--------------------------|------------------|--|
| Malcolm 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% |

Malcolm 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 repurchase securities which are proposed to be granted pursuant to the repurchase 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 Code. The Directors have no present intention to exercise the power to repurchase securities 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 Code as a consequence of any repurchases pursuant to the exercise of the power to repurchase securities.

During the six months preceding the date of this circular, no Shares and no Warrants have been repurchased by the Company (whether on The Stock Exchange or otherwise).

During the 12 months preceding 28 October 2003 (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 (there was no trading in Warrants during the 12 months preceding 28 October 2003 other than in December 2002, April 2003, June 2003, July 2003, August 2003 and September 2003.):

| Month | Shares | | Warrants | |
|-------------|-----------------|----------------|-----------------|----------------|
| | Highest HK\$ | Lowest HK\$ | Highest HK\$ | Lowest HK\$ |
| 2002 | | | | |
| October | 0.143 | 0.126 | – | – |
| November | 0.140 | 0.100 | – | – |
| December | 0.122 | 0.087 | 0.010 | 0.010 |
| 2003 | | | | |
| January | 0.114 | 0.070 | – | – |
| February | 0.096 | 0.080 | – | – |
| March | 0.099 | 0.076 | – | – |
| April | 0.093 | 0.060 | 0.010 | 0.010 |
| May | 0.066 | 0.050 | – | – |
| June | 0.069 | 0.045 | 0.011 | 0.010 |
| July | 0.099 | 0.051 | 0.100 | 0.010 |
| August | 0.145 | 0.082 | 0.019 | 0.011 |
| September | 0.153 | 0.090 | 0.015 | 0.010 |

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 26 November 2003 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 30 June 2003.
2. To re-elect Mrs. Hung Wong Kar Gee, Mimi as Director and authorise the Directors to fix her 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 Suite 4103-5, 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