
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold and/or transferred all your securities in Applied International Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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**APPLIED INTERNATIONAL HOLDINGS LIMITED****實力國際集團有限公司****(Incorporated in Bermuda with limited liability)*

Stock code: 519

PROPOSED REDUCTION OF SHARE CAPITAL

A notice convening the SGM of the Company to be held at the Kam Shan Room, the American Club, 49th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong on Wednesday, 16 June 2004 at 9:30 a.m. is set out on pages 7 to 8 of this circular. Whether or not you intend to attend and vote at the SGM, you are required to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible but in any event not less than 48 hours before the time appointed for holding the SGM or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting (as the case may be) should you so wish.

14 May 2004

* for identification purpose only

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DEFINITIONS

In this circular, the following expressions shall have the meanings set out below unless the context requires otherwise:

“Accumulated Losses”	the unaudited accumulated losses of the Company as at 31 December 2003 in the amount of HK\$235,698,000
“Board”	the board of Directors
“Capital Reduction”	the proposed reduction of the issued share capital of the Company by cancelling and reducing the nominal value of each of all issued Shares of HK\$0.20 each to HK\$0.01 per Share
“CCASS”	the Central Clearing and Settlement System established and operated by Hongkong Clearing
“Company”	APPLIED INTERNATIONAL HOLDINGS LIMITED, a company incorporated in Bermuda with limited liability and the shares of which are listed on the main board of the Stock Exchange
“Director(s)”	the director(s) of the Company
“Effective Date”	the date upon which the Capital Reduction becomes effective
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hongkong Clearing”	Hong Kong Securities Clearing Company Limited
“Latest Practicable Date”	12 May 2004, being the latest practicable date prior to the printing of this circular for ascertaining certain information for inclusion in this circular
“Listing Committee”	the Listing Committee of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“New Share(s)”	share(s) of HK\$0.01 each in the capital of the Company upon the Proposal being effective
“Option(s)”	option(s) granted under the share option scheme of the Company adopted on 16 September 2002
“Proposal”	the Capital Reduction, the Reduction of Authorised Share Capital, the Share Subdivision, the Reduction in the Share Premium Account and the Set-off

DEFINITIONS

“Reduction in the Share Premium Account”	the proposed reduction in the Company’s share premium account as set out in the sub-paragraph (d) in section headed “The Proposal” in this circular
“Reduction of Authorised Share Capital”	the proposed reduction of authorised share capital of the Company from HK\$400,000,000 to HK\$60,000,000 as set out in the sub-paragraph (c) in section headed “The Proposal” in this circular
“Set-off”	the proposed set-off against the Accumulated Losses as set out in sub-paragraph (e) in section headed “The Proposal” in this circular
“Share Subdivision”	the proposed subdivision of Shares as set out in the sub-paragraph (b) in section headed “The Proposal” in this circular
“Share(s)”	share(s) of HK\$0.20 each in the capital of the Company
“Shareholder(s)”	the holder(s) of the Share(s) or New Share(s) upon the Proposal becoming effective, as the case may be
“SGM”	the special general meeting of the Company to be held at the Kam Shan Room, the American Club, 49th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong on Wednesday, 16 June 2004 at 9:30 a.m. or any adjourned meeting thereof, notice of which is set out on pages 7 to 8 of this circular
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“%”	per cent.

LETTER FROM THE BOARD



APPLIED INTERNATIONAL HOLDINGS LIMITED

實力國際集團有限公司*

(Incorporated in Bermuda with limited liability)

Executive Directors:

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

Registered office:

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

Non-executive Director:

Soo Hung Leung, Lincoln

*Head office and principal place
of business:*

41/F., Far East Finance Centre
16 Harcourt Road
Central
Hong Kong

Independent Non-executive Directors:

Lo Yun Tai
Lun Tsan Kau

14 May 2004

To the Shareholders

Dear Sir/Madam,

PROPOSED REDUCTION OF SHARE CAPITAL

1. INTRODUCTION

The Board announced on 28 April 2004 that it intends to put forward a proposal to reduce the share capital of the Company.

The purpose of this circular is to provide you with further information relating to the Proposal and the notice convening the SGM at which a resolution will be proposed to approve the Proposal.

2. THE PROPOSAL

The Board intends to put forward a proposal to the Shareholders to:

- (a) reduce the par value of each Share in issue from HK\$0.20 to HK\$0.01 by cancelling the paid up capital to the extent of HK\$0.19 on each Share in issue on the Effective Date such that the par value of each issued share in the capital of the Company will be reduced to HK\$0.01 and the issued share capital of the Company of HK\$188,216,149 will be reduced by about HK\$178,805,342 to about HK\$9,410,807;
- (b) subdivide each of the authorised but unissued Shares of HK\$0.20 each into 20 New Shares of HK\$0.01 each;

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LETTER FROM THE BOARD

- (c) reduce the authorised share capital of the Company from HK\$400,000,000 divided into 40,000,000,000 New Shares to HK\$60,000,000 divided into 6,000,000,000 New Shares;
- (d) reduce the entire amount standing to the credit of the Company's share premium account as at the Effective Date; and
- (e) transfer the credit arising from the Capital Reduction and the Reduction in the Share Premium Account to the contributed surplus account of the Company and, upon transfer, to apply the same amount to set-off against the Accumulated Losses.

3. EFFECT AND REASON OF THE PROPOSAL

According to the unaudited accounts of the Company for the six-month period ended 31 December 2003, the Company recorded the Accumulated Losses of HK\$235,698,000.

On the basis of 941,080,745 Shares in issue as at the Latest Practicable Date and the amount in the sum of HK\$3,000 standing to the credit of the Company's share premium account as at 31 December 2003 (unaudited), the amount transferred to the contributed surplus account as a result of the Capital Reduction and the Reduction in the Share Premium Account will amount to HK\$178,808,342 and under the Proposal, such amount will be applied to set off against part of the Accumulated Losses.

Immediately upon the Proposal becoming effective, the nominal value of each of the issued and unissued Shares will be reduced from HK\$0.20 to HK\$0.01 per share. The price per Share was closed at HK\$0.09 as at 28 April 2004 (being the last trading day prior to the announcement of the Company dated 28 April 2004) and below the par value of HK\$0.20 per Share. The price was closed at HK\$0.106 as at the Latest Practicable Date. The Directors expect that the Proposal will give the Company greater flexibility in pricing any new issue of its shares in the future. The Board does not have any present intention to issue new Shares.

The Directors consider that the Accumulated Losses represent a permanent loss of assets of the Company and therefore the proposed set-off of the credit arising from the Capital Reduction and the Reduction in the Share Premium Account against the Accumulated Losses would better reflect the position and is considered to be in the best interests of the Company and the Shareholders as a whole.

Save for the expenses incurred by the Company in relation to the Proposal (which are estimated to be approximately HK\$380,000), the implementation of the Proposal will not, of itself, alter the underlying assets, business operations, management or financial position of the Company or the proportionate interests of the Shareholders.

As at the Latest Practicable Date, there were no outstanding Options.

4. CONDITIONS OF THE PROPOSAL

The Proposal is conditional on the following conditions being fulfilled:

- (i) the passing by the Shareholders of a special resolution to approve the Proposal at the SGM; and
- (ii) the Listing Committee granting the listing of, and permission to deal in, the New Shares in issue following the Proposal becoming effective.

The Proposal will become effective on the trading day (as defined in the Listing Rules) following the date on which the special resolution is passed by the Shareholders subject to the fulfilment of sub-paragraph (ii) above.

LETTER FROM THE BOARD

5. EXPECTED TIMETABLE AND TRADING ARRANGEMENTS

Subject to the Proposal becoming effective which is expected to be on or before 9:30 a.m. on Thursday, 17 June 2004, Shareholders may on or after Thursday, 17 June 2004 until Friday, 16 July 2004 submit certificates for the existing Shares in light pink to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Hong Kong, at the expense of the Company, in exchange for new certificates in light green for New Shares in issue. Thereafter, certificates for the existing Shares will be accepted for exchange only on payment of a fee of HK\$2.50 (or such higher amount as may from time to time allowed by the Stock Exchange) for each new certificate issued for the New Shares. Nevertheless, certificates for the existing Shares will continue to be good evidence of legal title and may be exchanged for certificates for the New Shares at any time.

The following expected timetable is indicative only and is subject to change:

Latest time for lodging for proxy forms for the SGM 9:30 a.m. on
Monday, 14 June 2004

Expected time and date of the SGM 9:30 a.m. on
Wednesday, 16 June 2004

Effective time and date of the Proposal 9:30 a.m. on
Thursday, 17 June 2004

Dealing in the New Shares commences 9:30 a.m. on
Thursday, 17 June 2004

Free exchange of existing share certificates for new
certificates commences Thursday, 17 June 2004

Free exchange of existing share certificates for new
certificates ends Friday, 16 July 2004

With effect from 9:30 a.m. on 17 June 2004, the board lot size of the shares of the Company would be changed from 10,000 Shares to 20,000 New Shares.

6. GENERAL

An application will be made to the Listing Committee for the listing of, and permission to deal, in the New Shares in issue following the Proposal becoming effective.

The Shares are listed and dealt in on the Stock Exchange. No part of the Company's securities are listed or dealt in on any other stock exchange, nor application for the listing or permission to deal in the Shares or the New Shares on any other stock exchange being or proposed to be sought.

The New Shares will be listed on the Stock Exchange only and not on any other stock exchange. All necessary arrangements have been made enabling the New Shares to be admitted into CCASS.

Subject to the granting of listing of, and permission to deal in, the New Shares on the Stock Exchange as well as compliance with the stock admission requirements of Hongkong Clearing, the New Shares will be accepted as eligible securities by Hongkong Clearing for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the New Shares on the Stock Exchange or such other date as determined by Hongkong Clearing. Settlement of transactions between participants of the Stock Exchange on

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any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

7. SGM

A notice convening the SGM to be held at the Kam Shan Room, the American Club, 49th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong on Wednesday, 16 June 2004 at 9:30 a.m. is set out on pages 7 to 8 of this circular for the purpose of considering and, if thought fit, passing the resolutions in respect of the Proposal.

A form of proxy for use by the Shareholders at the SGM is enclosed. Whether or not you intend to attend and vote at the SGM in person, you are required to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Room 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible but in any event, not less than 48 hours before the time appointed for holding the SGM or any adjourned meeting thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting thereof (as the case may be) should you so wish.

Pursuant to Bye-law 76 of the Company, every resolution submitted to a general meeting shall be determined on a show of hands in the first instance by the Shareholders present in person, but a poll may be demanded (before or on the declaration of the result of the show of hands) by the Chairman or by:

- (a) at least 3 Shareholders present in person (or in the case of a corporation, by its duly authorised representative) or by proxy and entitled to vote at the meeting; or
- (b) any Shareholder or Shareholders present in person (or in the case of a corporation, by its duly authorised representative) or by proxy and representing in the aggregate not less than one-tenth of the total voting rights of all the Shareholders having the right to vote at the meeting; or
- (c) any Shareholder or Shareholders present in person (or in the case of a corporation, by its duly authorised representative) or by proxy and holding shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

8. RECOMMENDATION

Having regard to the information described above, the Board are of the opinion that the Proposal is in the best interest of the Company and the Shareholders as a whole for the reasons set out in the section headed "Effect and reason of the Proposal" in this circular. Accordingly, the Board recommends the Shareholders to vote in favour of the resolution to approve the Proposal at the SGM.

Yours faithfully
For and on behalf of
Applied International Holdings Limited
Hung Kin Sang, Raymond
Chairman

NOTICE OF SPECIAL GENERAL MEETING



APPLIED INTERNATIONAL HOLDINGS LIMITED

實力國際集團有限公司*

(Incorporated in Bermuda with limited liability)

Stock code: 519

NOTICE IS HEREBY GIVEN that a special general meeting of APPLIED INTERNATIONAL HOLDINGS LIMITED (the “**Company**”) will be held at the Kam Shan Room, the American Club, 49th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong on Wednesday, 16 June 2004 at 9:30 a.m. for the purpose of considering and, if thought fit, passing the following resolution as a special resolution of the Company:

SPECIAL RESOLUTION

“**THAT** with effect from 9:30 a.m. (Hong Kong time) on the next trading day (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”)) after the day on which this resolution is duly passed (the “**Effective Date**”) and conditional upon the Stock Exchange granting the listing of, and permission to deal in, the New Shares (as defined below) in issue prior to the Effective Date:

- (a) the par value of HK\$0.20 of each share of the Company in issue (“**Share**”) be reduced from HK\$0.20 to HK\$0.01 by cancelling the paid-up capital to the extent of HK\$0.19 on each Share in issue (the “**Capital Reduction**”) such that the par value of each issued share in the capital of the Company be reduced to HK\$0.01 and the issued share capital of the Company of HK\$188,216,149 be reduced by about HK\$178,805,342 to about HK\$9,410,807;
- (b) each authorised but unissued Share of HK\$0.20 be subdivided into 20 new shares (“**New Shares**”) of HK\$0.01 each;
- (c) the authorised share capital of the Company be reduced from HK\$400,000,000 divided into 40,000,000,000 New Shares to HK\$60,000,000 divided into 6,000,000,000 New Shares;
- (d) the entire amount standing to the credit of the Company’s share premium account be reduced (the “**Reduction in the Share Premium Account**”);
- (e) the credit arising from the Capital Reduction and the Reduction in the Share Premium Account be transferred to the contributed surplus account of the Company and, upon transfer, be applied against the unaudited accumulated losses of the Company as at 31 December 2003; and

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NOTICE OF SPECIAL GENERAL MEETING

- (f) any director of the Company be authorised to do all acts and things which in his opinion are necessary to effect and implement any of the foregoing.”

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

Hong Kong, 14 May 2004

Head office and principal place of business:

41/F., Far East Finance Centre
16 Harcourt Road
Central
Hong Kong

Notes:

1. A form of proxy for use at the meeting is enclosed herewith.
2. The form of proxy shall be in writing under the hands of the appointor or of his/her attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of any officer or attorney authorised to sign the same.
3. Any member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote instead of him/her. A proxy need not be a member of the Company.
4. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, must be lodged at the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Room 1712-1716, Hopewell Centre, 183 Queen's Road East, Hong Kong, not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting (as the case may be).
5. Completion and return of the form of proxy will not preclude members from attending and voting in person at the meeting or at any adjourned meeting (as the case may be) should they so wish, and in such event, the form of proxy shall be deemed to be revoked.
6. Where there are joint registered holders of any Share(s), any one of such joint holders may vote at the meeting, either in person or by proxy, in respect of such Share(s) as if he/she solely entitled thereto, but if more than one of such joint holders are present at the meeting, the most senior shall alone be entitled to vote, whether in person or by proxy. For this purpose, seniority shall be determined by the order in which the name stand in the register of members of the Company in respect of the joint holding of the share(s).
7. As at the date hereof, Messrs. Raymond Hung Kin Sang, Mimi Hung Wong Kar Gee and Fang Chin Ping are executive directors; Messrs. Lincoln Soo Hung Leung is a non-executive director and Messrs. Lo Yun Tai and Lun Tsan Kau are independent non-executive directors of the Company.