



Applied International Holdings Limited

(incorporated in Bermuda with limited liability)

Applied (China) Limited

(incorporated in Bermuda with limited liability)

JOINT ANNOUNCEMENT

POSSIBLE DISCLOSEABLE
TRANSACTION
AND
CONNECTED TRANSACTION

PROPOSED RIGHTS ISSUE
ON THE BASIS OF
ONE RIGHTS SHARE
FOR EVERY
EXISTING SHARE HELD
AND GRANT OF GENERAL MANDATES TO ISSUE
AND REPURCHASE SHARES

Financial Adviser to Applied (China) Limited



Kingsway Capital Limited

The Company proposes to raise approximately HK\$42 million before expenses by way of a rights issue of not less than 574,630,910 Rights Shares at HK\$0.073 each. The Company will provisionally allot one Rights Share in nil-paid form for every existing Share held by the Qualifying Shareholders on the Record Date. The Rights Issue is not available to the Overseas Shareholders.

The Controlling Shareholders have irrevocably undertaken to the Company to take up their entitlements under the Rights Issue in full. Pursuant to the Underwriting Agreement, the Rights Issue is also fully underwritten by Applied International.

The last day of dealing in the Shares on a cum-rights basis is Friday, 22nd March, 2002. The Shares will be dealt with on an ex-rights basis from Monday, 25th March, 2002. To qualify for the Rights Issue, a Qualifying Shareholder's name must appear on the register of members of the Company on the Record Date, which is currently expected to be Thursday, 4th April, 2002. In order to be registered as members on the Record Date, any transfer of Shares (with the relevant share certificates) must be lodged for registration by 4:00 p.m. on Tuesday, 26th March, 2002 (the closing of the share register is expected to be from Wednesday, 27th March, 2002 to Thursday, 4th April, 2002, both dates inclusive).

It should be noted that the Underwriting Agreement contains provisions granting the Underwriter the right to terminate its obligations on the occurrence of certain events including force majeure. Please refer to the paragraph headed "Termination of the Underwriting Agreement" for further details.

WARNING OF THE RISKS OF DEALING IN SHARES, WARRANTS AND RIGHTS SHARES

Any Shareholders or other persons contemplating selling or purchasing Shares and/or Warrants and/or Rights Shares in their nil-paid form during the period from Tuesday, 9th April, 2002 to Wednesday, 17th April, 2002 who are in any doubt about their position are recommended to consult their professional advisers. Any Shareholders or other persons dealing in Shares up to the date on which all the conditions to which the Rights Issue is subject are fulfilled (and the date on which the Underwriter's right of termination of the Underwriting Agreement ceases) and any persons dealing in the nil-paid Rights Shares during the period from Tuesday, 9th April, 2002 to Wednesday, 17th April, 2002 will accordingly bear the risk that the Rights Issue may not become unconditional and may not proceed.

The Company will apply to the Stock Exchange for the listing of, and permission to deal in, the Rights Shares.

The net proceeds of the Rights Issue are expected to be about HK\$40.3 million; 50% is for the diversification of the Group's business into the processing and distribution of Chinese medicinal herbs, namely Lingzhi, and the remaining 50% will be used as general working capital for the Group.

Pursuant to the Listing Rules, independent Shareholders' approval will be required for the Rights Issue. The Controlling Shareholders and their respective associates will abstain from voting at the SGM pursuant to Rule 7.19(6)(a) of the Listing Rules. In connection with the Rights Issue, an independent board committee will be formed to advise the independent Shareholders and an independent financial adviser will be appointed to advise the independent board committee on the Rights Issue. A circular containing, amongst other things, details of the Rights Issue, the recommendation of the independent financial adviser, the recommendation of the independent board committee of the Directors and the notice convening the SGM will be despatched to Shareholders as soon as practicable.

The Underwriting Agreement entered into by Applied International constitutes a possible discloseable transaction for Applied International. In addition, as Applied International has entered into a transaction with its non-wholly owned subsidiary, this transaction constitutes a connected transaction so far as Applied International is concerned. A circular containing information relating to this transaction, the recommendation of the independent financial adviser to be appointed by Applied International and a notice convening a special general meeting of the shareholders of Applied International will be despatched to shareholders of Applied International as soon as practicable.

At the request of the Company and Applied International, respectively, trading in the Shares and the Warrants and the shares and warrants of Applied International on the Stock Exchange was suspended from 10:00 a.m. on 27th February, 2002 pending release of this announcement. Applications have been made to the Stock Exchange for the resumption of trading in the Shares and the Warrants and the shares and warrants of Applied International with effect from 10:00 a.m. on 28th February, 2002.

THE RIGHTS ISSUE

Issue statistics

Basis of the Rights Issue:	one Rights Share for every existing Share held on the Record Date
Number of Shares in issue:	574,630,910 Shares as at the date of this announcement
Number of Rights Shares:	not less than 574,630,910 Rights Shares
Subscription price for Rights Shares:	HK\$0.073 per Rights Share

As at the date of this announcement, there are outstanding Warrants in issue carrying rights to subscribe up to an aggregate of 114,926,182 Shares. Batimate, Applied International and Applied Electronics are the beneficial owners of 58,702,517 Warrants, 499,875 Warrants and 111 Warrants respectively. Each of Batimate, Applied International and Applied Electronics has irrevocably undertaken that it will not exercise the Warrants registered in its name as at the date hereof up to and including the Record Date. Assuming that all of the remaining outstanding Warrants are to be exercised in full prior to the Record Date, a further 55,723,679 Rights Shares will be issued under the Rights Issue.

Financial adviser to the Company

Kingsway Capital Limited, an independent third party not connected with the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates.

Qualifying Shareholders

The Company will send the Prospectus Documents to the Qualifying Shareholders and the Prospectus, for information only, to the Overseas Shareholders.

To qualify for the Rights Issue, a Shareholder must:

- be registered as a member of the Company on the Record Date; and
- have an address in Hong Kong which appears on the register of members of the Company on the Record Date.

In order to be registered as members on the Record Date, Shareholders must lodge any transfers of Shares (together with the relevant share certificates) with the Company's branch share registrar in Hong Kong by 4:00 p.m. on Tuesday, 26th March, 2002. The Company's branch share registrar in Hong Kong is Progressive Registration Limited, at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong.

Closure of register of members

The register of members of the Company will be closed from Wednesday, 27th March, 2002 to Thursday, 4th April, 2002, both dates inclusive. No transfer of Shares will be registered during this period.

Subscription price for the Rights Shares

The subscription price for each Rights Share is HK\$0.073 payable in full upon acceptance of the assured entitlements and (where applicable) application for excess Rights Shares under the Rights Issue.

Such subscription price represents (i) a discount of 27.00% to the closing price of HK\$0.10 per Share as quoted on the Stock Exchange on the Last Trading Day; (ii) a discount of about 19.07% to the average closing price of HK\$0.0902 per Share for the last 10 trading days up to and including the Last Trading Day; (iii) a discount of about 15.61% to the theoretical ex-rights price of HK\$0.0865 per Share based on the closing price of HK\$0.10 per Share on the Last Trading Day; and (iv) a discount of about 86.73% to the net asset value per Share of HK\$0.55 based on the audited accounts of the Company as at 30th June, 2001. Such subscription price was determined after taking into consideration the prevailing trading prices of the Shares. The Directors consider the terms of the Rights Issue to be fair and reasonable and in the best interests of the Company and the Shareholders.

Status of the Rights Shares

The Rights Shares (when issued and fully-paid) will rank pari passu with the then existing Shares in all respects. Holders of fully-paid Rights Shares will be entitled to receive all future dividends and distributions which are declared, made or paid after the date of allotment and issue of the Rights Shares.

Certificates for Rights Shares

Subject to the fulfillment of the conditions of the Rights Issue, certificates for all fully-paid Right Shares are expected to be posted by Friday, 26th April, 2002 to those who have accepted and (where applicable) applied for, and paid for the Rights Shares at their own risk.

Rights of Overseas Shareholders

The Prospectus Documents will not be registered or filed, as the case may be, under the applicable securities legislation of any jurisdictions other than Hong Kong and Bermuda. Having reviewed the register of members and the territories in which the Overseas Shareholders are resident, the Directors are of the view that the offer of the Rights Shares to the Overseas Shareholders requires or may require compliance with regulations or other special formalities applicable in such territories and the absence of which will render the offer unlawful or impracticable. The Company will send the Prospectus to the Overseas Shareholders for their information only and will not send provisional allotment letters or application forms for excess Rights Shares to the Overseas Shareholders.

Arrangements will be made for Rights Shares which would otherwise have been provisionally allotted to the Overseas Shareholders to be sold in the market in their nil-paid form as soon as practicable after dealings in the nil-paid Rights Shares commence, if a premium (net of expenses) can be obtained. The proceeds of such sale, less expenses, of HK\$100 or more will be paid pro rata to the Overseas Shareholders. The Company will retain individual amounts of less than HK\$100.

Application for excess Rights Shares

The Qualifying Shareholders are entitled to apply for any unsold entitlements of the Overseas Shareholders and any Rights Shares provisionally allotted but not accepted or otherwise subscribed for by transferees of nil-paid Rights Shares.

Applications for excess Rights Shares may be made by completing the application form for excess Rights Shares and lodging the same with a separate remittance for the excess Rights Shares being applied for. The Directors will allocate the excess Rights Shares at their discretion on a fair and reasonable basis.

Application for listing

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Rights Shares, in both the nil-paid and fully-paid forms to be allotted and issued pursuant to the Rights Issue.

Dealing in the Rights Shares in both the nil-paid and fully-paid forms registered in the branch register of the Company in Hong Kong will be subject to the payment of stamp duty in Hong Kong.

UNDERWRITING ARRANGEMENT

Undertakings from Controlling Shareholders

As at the date of this announcement, the Controlling Shareholders are together beneficially interested in an aggregate of 319,190,518 Shares representing approximately 55.55% of the existing issued share capital of the Company. Each of the Controlling Shareholders has given an irrevocable undertaking to accept or procure acceptance of its entitlement to the Rights Shares which will be provisionally allotted to it as the holder of such Shares under the Rights Issue, amounting to 319,190,518 Rights Shares in aggregate in respect of all the Controlling Shareholders.

Underwriting Agreement

Date:	26th February, 2002
Underwriter:	Applied International
Commission:	2% of the total subscription price of the Rights Shares underwritten by Applied International

In addition to the Rights Shares which are the subject of irrevocable undertakings of the Controlling Shareholders referred to in the section above, Applied International has fully underwritten all of the remaining Rights Shares to be issued under the Rights Issue, amounting to not less than 255,440,392 Rights Shares.

Based on the level of acceptance of the Rights Shares by Qualifying Shareholders and transferees of nil-paid Rights Shares, the amount to be paid by the Controlling Shareholders (before taking into account the commission to be paid to Applied International under the Underwriting Agreement) would be between about HK\$23.3 million (assuming all Qualifying Shareholders take up the Rights Shares in full) and HK\$46.0 million (assuming all of the remaining outstanding Warrants are exercised in full prior to the Record Date and no Qualifying Shareholders take up the Rights Shares except the Controlling Shareholders). The Rights Shares undertaken by the Controlling Shareholders and underwritten by Applied International are financed by facilities in the amount of HK\$42 million especially arranged and in place for the purpose of the Rights Issue between Applied International and a third party independent of the Company, Applied International and each of its respective directors, chief executives, substantial shareholders and respective associates and the balance by the internal resources of Applied International.

Assuming the Controlling Shareholders subscribe in full for all of the 319,190,518 Rights Shares to which they are respectively entitled under the Rights Issue in accordance with the irrevocable undertakings referred to above and assuming Applied International is required to take up 255,440,392 Rights Shares pursuant to the Underwriting Agreement, the Controlling Shareholders will be beneficially interested in an aggregate of 893,821,428 Shares, representing approximately 77.77% of the issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares.

The Directors and the directors of Applied International will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that not less than 25% of the Shares will be held by the general public upon completion of the Rights Issue. Following the Rights Issue, should there be less than 25% of the Shares in public hands, the Directors and the directors of Applied International undertake to the Stock Exchange to take appropriate steps, which may include placing down its shareholding interest in the Company to members of the public within one month after the completion of the Rights Issue. **The Stock Exchange has stated that it will closely monitor trading in the securities of the Company if, following completion of the Rights Issue, less than 25% of the securities of the Company are held by the general public.**