

Termination of the Underwriting Agreement

The Underwriter may terminate its obligations under the Underwriting Agreement by notice in writing given by the Underwriter to the Company at any time prior to 4:00 p.m. on Wednesday, 24th April, 2002, being the second business day immediately after the last day for acceptance of the Rights Issue if:

- the Underwriter shall become aware of the fact that, or shall have reasonable cause to believe that any of the warranties in the Underwriting Agreement was untrue, inaccurate, misleading or breached, and in each case the same is (in the reasonable opinion of the Underwriter) material in the context of the Rights Issue; or
- any new law or regulation is enacted, or there is any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority, whether in Hong Kong or elsewhere;
 - any change in local, national or international financial, political, industrial or economic conditions;
 - any change of an exceptional nature in local, national or international equity securities or currency markets;
 - any local, national or international outbreak or escalation of hostilities, insurrection or armed conflict;
 - any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange;
 - any change or development involving a prospective change in taxation or exchange controls in Hong Kong or elsewhere which shall or may materially and adversely affect the Group or a material proportion of the shareholders in their capacity as such,which event or events is or are in the reasonable opinion of the Underwriter:-
 - likely to have a material adverse effect on the business or financial position or prospects of the Group taken as a whole; or
 - likely to have a material adverse effect on the success of the Rights Issue or the level of Rights Shares to be taken up; or
 - so material as to make it inappropriate, inadvisable or inexpedient to proceed further with the Rights Issue.

Upon the giving of notice of termination, all obligations of the Underwriter under the Underwriting Agreement shall cease and no party shall have any claim against any other parties in respect of any matter or thing arising out of or in connection with the Underwriting Agreement. If the Underwriter exercises such right, the Rights Issue will not proceed.

CONDITIONS OF THE RIGHTS ISSUE

The Rights Issue is conditional upon, amongst other things, each of the following conditions being fulfilled on or before 4:00 p.m. on Wednesday, 24th April, 2002 (unless an earlier date is indicated):

- the approval of the Rights Issue at the SGM;
- the shareholders of Applied International approving the Underwriting Agreement at a special general meeting of Applied International to be convened;
- the Listing Committee of the Stock Exchange granting or agreeing to grant, subject to allotment, and not having withdrawn or revoked the listing of, and permission to deal in, the Rights Shares in their nil-paid and fully-paid forms prior to Tuesday, 9th April, 2002, being the expected date of commencement of dealings in the Rights Shares in nil-paid form; and
- the obligations of the Underwriter under the Underwriting Agreement becoming unconditional and the Underwriting Agreement not being terminated in accordance with its terms or otherwise.

EXPECTED TIMETABLE

The expected timetable for the Rights Issue is set out below:-

	2002
Despatch of the circular	Tuesday, 19th March
Last day of dealings in Shares on a cum-rights basis	Friday, 22nd March
First day of dealings in Shares on an ex-rights basis	Monday, 25th March
Latest time for warrant holders to exercise Warrants to qualify for entitlements pursuant to the Rights Issue	4:00 p.m. on Tuesday, 26th March
Latest time for lodging transfers of Shares	4:00 p.m. on Tuesday, 26th March
Register of members closed (both dates inclusive)	Wednesday, 27th March to Thursday, 4th April
Latest time for return of proxy form for SGM	9:30 a.m. on Tuesday, 2nd April
Expected date of SGM	9:30 a.m. on Thursday, 4th April
Record Date	Thursday, 4th April
Despatch of the Prospectus Documents	Thursday, 4th April
Register of members re-opens	Monday, 8th April
First day of dealings in nil-paid Rights Shares	Tuesday, 9th April
Latest time for splitting nil-paid Rights Shares	4:00 p.m. on Friday, 12th April
Last day of dealings in nil-paid Rights Shares	Wednesday, 17th April
Latest time for payment for and acceptance of Rights Shares	4:00 p.m. on Monday, 22nd April
Rights Issue expected to become unconditional	4:00 p.m. on Wednesday, 24th April
Announcement of results of acceptance of the Rights Issue	Thursday, 25th April
Despatch of refund cheques in respect of wholly or partially unsuccessful applications for excess Rights Shares	Friday, 26th April
Despatch of certificates for fully-paid Rights Shares on or before	Friday, 26th April
First day of dealings in the fully-paid Rights Shares	Tuesday, 30th April
Dates or deadlines specified in this announcement for events in the timetable for (or otherwise in relation to) the Rights Issue are indicative only and may be exercised or varied by agreement between the Company and the Underwriter. Any consequential changes to the expected timetable will be published or notified to Shareholders appropriately.	

SHAREHOLDING STRUCTURE OF THE COMPANY

The shareholding structure of the Company is, and will be, as follows:

	Immediately before completion of the Rights Issue	Immediately after completion of the Rights Issue (assuming all Qualifying Shareholders had taken up the Rights Shares in full)	Immediately after completion of the Rights Issue (assuming no Qualifying Shareholders take up the Rights Shares except the Controlling Shareholders)			
	Shares	Shares	Shares			
Batimate	311,381,584	54.19%	622,763,168	54.19%	622,763,168	54.19%
Applied International (note 1)	7,808,375	1.36%	15,616,750	1.36%	271,057,142	23.58%
Applied Electronics	559	0.01% <	1,118	0.01% <	1,118	0.01% <
Public	255,440,392	44.45%	510,880,784	44.45%	255,440,392	22.23%
Total	574,630,910	100.00%	1,149,261,820	100.00%	1,149,261,820	100.00%

Notes:

- Applied International is controlled by Capita Company Inc., a company wholly owned by Marami Foundation as the trustee for a discretionary trust named Raymond Hung / Mimi Hung Family Trust. The beneficiaries of the Raymond Hung / Mimi Hung Family Trust include Hung Kin Sang, Raymond and Wong Kar Gee, Mimi, both of whom are Directors, and their family members.
- The above table assumes none of the Warrants will be exercised prior to the completion of the Rights Issue.

REASONS FOR THE RIGHTS ISSUE

The Group is principally engaged in the design, manufacture and marketing of consumer electronic products and e-commerce business. The intended use of the proceeds of the Rights Issue is set out below under the paragraph headed "Use of proceeds of the Rights Issue". In view of the current market conditions and the considerable amount intended to be raised, the Directors consider that the Rights Issue provides a good opportunity for the Group to raise funds and to strengthen its financial position.

The financial impact of the Rights Issue to the Group will be detailed in the circular of the Company which will be despatched to the Shareholders as soon as practicable.

As the Qualifying Shareholders are entitled to maintain their respective pro rata shareholdings in the Company after the Rights Issue, the Directors consider that it is in the interests of the Company and its Shareholders as a whole to raise the capital through the Rights Issue.

USE OF PROCEEDS OF THE RIGHTS ISSUE

The estimated expenses of the Rights Issue are approximately HK\$1.7 million, which will be borne by the Company. 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.

The Directors believe that with the global increase in human awareness and the increasing popularity of Chinese health products, the business of manufacturing and distribution of Lingzhi has a good prospect and promising outlook. The diversification of the Group's business as mentioned above will not result in a change in the Group's existing principal business. There are no proposals or agreements currently entered into by the Company in respect of such new business. Should the Company enter into any such agreement, the Company will ensure that it complies with relevant Listing Rules.

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

Existing Shares will be dealt in on an ex-rights basis from Monday, 25th March, 2002. Dealings in the Rights Shares in the nil-paid form will take place from Tuesday, 9th April, 2002 to Wednesday, 17th April, 2002 (both dates inclusive). If the conditions of the Rights Issue are not fulfilled, the Rights Issue will not proceed.

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 or may not proceed.

ADJUSTMENT TO THE EXERCISE PRICE OF THE WARRANTS

The exercise price of the Warrants may be adjusted in accordance with the terms of the Warrant instrument upon the Rights Issue becoming unconditional, and the Company will make a further announcement if such adjustment is necessary.

GENERAL MANDATES

In connection with the enlarged share capital as a result of the Rights Issue, the Directors will seek the approval of Shareholders at the SGM for the grant of a general mandate to issue further securities not exceeding 20% of the share capital as enlarged by the Rights Issue and to issue further securities repurchased by the Company pursuant to the repurchase mandate referred to below.

The Directors will also seek the approval of Shareholders to grant to the Directors a general mandate to repurchase securities up to a maximum of 10% of the aggregate nominal amount of the share capital of the Company in issue immediately following the Rights Issue.

APPLIED INTERNATIONAL

Applied International is an investment holding company and together with its subsidiaries are principally engaged in the design, manufacture, marketing and distribution of consumer electronic products and property investment and development.

The transaction contemplated under the Underwriting Agreement enables Applied International to support its subsidiary in its capital raising exercise and at the same time receives underwriting fee for underwriting the Rights Issue.

GENERAL

As at 30th June, 2001, being the date to which the latest audited accounts of the Group were made up, the Group had a net tangible asset value of HK\$316,071,237. Assuming no Qualifying Shareholders take up the Rights Shares except the Controlling Shareholders, the Controlling Shareholders will be interested in approximately 77.77% of the audited consolidated net tangible assets of the Group as at 30th June, 2001 (not taking into account the net proceeds of the Rights Issue), being approximately HK\$245,808,601. The audited consolidated loss after taxation of the Group for the financial years ended 30th June, 2000 and 2001 were approximately HK\$24.8 million and HK\$28.5 million respectively and the corresponding loss before taxation for the same periods were approximately HK\$23.5 million and HK\$30.9 million respectively.

As at 30th June, 2001, being the date to which the latest audited accounts of Applied International and its subsidiaries were made up, Applied International and its subsidiaries had a net tangible asset value of HK\$392,431,000.

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. A circular containing, among 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, and warrant holders for information only, as soon as practicable.

POSSIBLE DISCLOSEABLE TRANSACTION AND CONNECTED TRANSACTION

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. Pursuant to the Listing Rules, approval from the independent shareholders at a special general meeting of Applied International will be required for the Underwriting Agreement and no shareholders of Applied International will be required to abstain from voting on the basis that no connected person of Applied International is interested in the transaction contemplated herein.

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 to consider and, if thought fit, approve this transaction will be despatched to shareholders of Applied International as soon as practicable.

SUSPENSION AND RESUMPTION OF TRADING

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.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the following meanings:

"Applied Electronics"	Applied Electronics Limited, a wholly owned subsidiary of Applied International
"Applied International" or "Underwriter"	Applied International Holdings Limited, a company incorporated in Bermuda with limited liability, the securities of which are listed on the Stock Exchange and the ultimate holding company of the Company
"associate"	has the meaning ascribed to it under the Listing Rules
"Batimate"	Batimate Limited, a wholly owned subsidiary of Applied International
"business day"	a day (excluding Saturday) on which banks are open for business in Hong Kong
"Company"	Applied (China) Limited, a company incorporated in Bermuda with limited liability and the securities of which are listed on the Stock Exchange
"Controlling Shareholders"	Batimate, Applied International and Applied Electronics
"Director(s)"	director(s) of the Company
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Last Trading Day"	26th February, 2002, being the last trading day before the suspension of the trading of the Shares and Warrants on the Stock Exchange pending the release of this announcement
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Overseas Shareholder(s)"	Shareholder(s) whose names appear on the register of members of the Company on the Record Date and whose addresses as shown on such register are outside Hong Kong
"Prospectus"	a prospectus containing details of the Rights Issue
"Prospectus Documents"	the Prospectus, the provisional allotment letter and the form of application for excess Rights Shares
"Qualifying Shareholder(s)"	Shareholder(s) whose names appear on the register of members of the Company at the close of business on the Record Date other than the Overseas Shareholder(s)
"Record Date"	Thursday, 4th April, 2002, being the date by reference to which entitlements to the Rights Issue are expected to be determined
"Rights Issue"	the rights issue of one Rights Share for every existing Share
"Rights Share(s)"	new Share(s) to be allotted and issued under the Rights Issue at the subscription price of HK\$0.073 per Rights Share
"SGM"	the special general meeting of the Company which is proposed to be convened to be held on Thursday, 4th April, 2002 to consider the Rights Issue and the granting of the general mandates to issue and repurchase Shares
"Share(s)"	share(s) of HK\$0.01 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Underwriting Agreement"	the agreement dated 26th February, 2002 entered into between the Company and the Underwriter in relation to the underwriting and certain other arrangements in respect of the Rights Issue
"Warrant(s)"	warrant(s) issued by the Company which entitle the holders to subscribe for one fully-paid Share for every warrant they hold at the subscription price of HK\$1.00 (subject to adjustment) at any time between 20th December, 2001 and 30th April, 2004
"HK\$"	Hong Kong dollars, the lawful currency of Hong Kong
"%"	per cent.

By order of the board of directors of
Applied International Holdings Limited
Hung Kin Sang, Raymond
Chairman

By order of the board of Directors
Applied (China) Limited
Fang Chin Ping
Director

Hong Kong, 27th February, 2002