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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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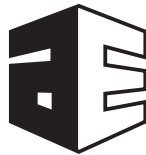
This circular is for information only and does not constitute an invitation or offer nor is it calculated to invite offers to acquire or subscribe for securities of Applied (China) Limited.

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

**If you have sold or transferred** all your shares in Applied (China) Limited, you should at once hand this circular together with the enclosed form of proxy, to the purchaser or the transferee or to the bank, a licensed securities dealer or other agent through whom the sales was effected for transmission to the purchaser or the transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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**APPLIED (CHINA) LIMITED**

*(incorporated in Bermuda with limited liability)*

**DISCLOSEABLE AND  
CONNECTED TRANSACTION  
AND  
SPECIAL DEAL  
AND  
PROPOSED CHANGE OF COMPANY NAME**

**Independent financial adviser to the Independent Shareholders**



**SOMERLEY LIMITED**

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A letter from the independent financial adviser containing its advice to the Independent Shareholders is set out on pages 14 to 23 of this circular.

A notice convening a special general meeting of Applied (China) Limited to be held at 9:30 a.m. on Wednesday, 4 February 2004 at The Kam Shan Room, The American Club, 49th Floor, Two Exchange Square, 8 Connaught Place, Hong Kong, is set out on pages 49 to 51 of this circular. Whether or not they are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the branch registrar and transfer office of Applied (China) Limited, Progressive Registration Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time for holding the meeting. Completion and return of the proxy form will not preclude Shareholders from attending and voting in person at the meeting or any adjourned meeting should they so wish.

12 January 2004

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## DEFINITIONS

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

“AIHL”	Applied International Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“AIHL Group”	AIHL and its subsidiaries (other than the Group)
“Accounts Receivable”	trade and other receivables of the Assignors in the aggregate amount of HK\$1,881,677
“acting in concert”	the meaning ascribed to it in the Takeovers Code
“Assignors”	iQuorum, Tronicwatch Limited, Starwin Investments Limited, China H.K. Macau Display Centre Limited and Property Tycoon Limited, all of which were wholly-owned subsidiaries of the Company as at the Latest Practicable Date
“associate”	the meaning ascribed to it in the Listing Rules
“Bank Loan”	a HK\$20,000,000 short-term loan extended by Fortis Bank Asia HK to the Company
“Change of Company Name”	the proposed change of name of the Company to MACRO-LINK International Holdings Limited and the adoption of 新華聯國際控股有限公司 as the Chinese name of the Company for identification purposes only
“Company”	Applied (China) Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“Completion”	completion of the Sale and Purchase Deed
“Director(s)”	director(s) of the Company
“Disposal”	the disposal of the iQuorum Sale Shares by the Company pursuant to the Disposal Agreement

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## DEFINITIONS

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“Disposal Agreement”	the conditional agreement dated 1 December 2003 entered into between the Company and AIHL pursuant to which, inter alia, the Company agreed to sell and AIHL agreed to purchase the iQuorum Sale Shares
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“Finance Lease”	all the finance leases of the Company which as at 30 June 2003 amounted to an aggregate amount of HK\$5,459,988.02
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Shareholders”	shareholders of the Company other than AIHL, its associates and parties acting or presumed to be acting in concert with it
“iQuorum”	iQuorum Cybernet Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company as at the Latest Practicable Date
“iQuorum Sale Shares”	the entire issued share capital of iQuorum
“Joint Announcement”	the joint announcement dated 5 December 2003 of AIHL, the Company and the Offeror relating to the Sale and Purchase Deed, the Disposal Agreement and the Offers
“Latest Practicable Date”	9 January 2004, being the latest practicable date for ascertaining certain information for inclusion in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

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## DEFINITIONS

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“Offers”	the possible mandatory unconditional cash offers that are required to be made following and subject to Completion by Quam Securities Company Limited on behalf of the Offeror on the terms and subject to the conditions referred to in the Joint Announcement and to be set out in the Offer Document to acquire all the Shares at HK\$0.1427 per Share and to acquire all the outstanding Warrants at a cash price of HK\$0.001 per Warrant (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it)
“Offer Document”	the document to be issued by or on behalf of the Offeror (if the Offers are required) to the Shareholders and Warrantholders in accordance with the Takeovers Code containing, among other things, details of the Offers and the related acceptance and transfer forms
“Offeror”	MACRO-LINK International Investment Co. Ltd., a company incorporated in the British Virgin Islands with limited liability
“Ongoing Transaction”	the manufacture by Quorum Bio-Tech China of, and the sale of Quorum Bio-Tech China to Quorum Global of, some of its Chinese herbal supplements and nutritional products for overseas distribution via Quorum Global, which prior to Completion constitute connected transactions of the Company for the purposes of the Listing Rules and which will continue after Completion
“Outgoing Group”	iQuorum and its subsidiaries as at the Latest Practicable Date (excluding Panorama Limited, Sharp Win (Holdings) Limited, Sharp Win Industrial Limited, Sheen, RJP Finance Limited, Workplace Logistics Limited and Quorum Bio-Tech China), which will cease to be subsidiaries of the Company after completion of the Disposal
“PRC”	the People’s Republic of China
“Quorum Bio-Tech China”	天健生物(深圳)有限公司, a company established in the PRC, and a wholly-owned subsidiary of the Company

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## DEFINITIONS

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“Quorum Global”	Quorum Global Limited, a company incorporated in Hong Kong, and a wholly-owned subsidiary of AIHL
“Remaining Group”	the Company, Panorama Limited, Sharp Win (Holdings) Limited, Sharp Win Industrial Limited, Sheen, RJP Finance Limited, Workplace Logistics Limited and Quorum Bio-Tech China
“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, Hong Kong, on 4 February 2004 at 9:30 a.m. to consider, among other things, the Disposal and the Change of Company Name
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Sale Shares”	861,887,920 Shares to be sold by AIHL pursuant to the Sale and Purchase Deed
“Sale and Purchase Deed”	the conditional deed for, inter alia, the sale and purchase of the Sale Shares dated 1 December 2003 entered into between the Offeror, AIHL and Mr Hung Kin Sang, Raymond
“Shareholder(s)”	shareholder(s) of the Company from time to time
“Share(s)”	share(s) of HK\$0.01 each in the issued share capital of the Company
“Sheen”	Sheen Champion Holdings Limited, a wholly-owned subsidiary of the Company
“Sommerley”	Sommerley Limited, a corporation licensed under the SFO, which has been appointed by the Company as the independent financial adviser to the Independent Shareholders in respect of the Disposal and the Offers
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

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## DEFINITIONS

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“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Warrant(s)”	warrant(s) of the Company conferring rights to the holders thereof to subscribe for Share(s) at an initial subscription price of HK\$1 per Share (subject to adjustment) which are exercisable at any time on or before 30 April 2004
“Warrantholders”	holders of outstanding Warrants

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LETTER FROM THE BOARD

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**APPLIED (CHINA) LIMITED**

*(incorporated in Bermuda with limited liability)*

*Executive Directors:*

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

*Registered office:*

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

*Independent non-executive Directors:*

Lun Tsan Kau  
Lo Yun Tai

*Head office and*

*principal place of business:*  
Rooms 4103–4105, 41st Floor  
Far East Finance Centre  
16 Harcourt Road  
Central  
Hong Kong

12 January 2004

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

Dear Sir or Madam,

**DISCLOSEABLE AND  
CONNECTED TRANSACTION  
AND  
SPECIAL DEAL  
AND  
PROPOSED CHANGE OF COMPANY NAME**

**1. INTRODUCTION**

Reference is made to the Joint Announcement.

On 1 December 2003, the Offeror entered into the Sale and Purchase Deed with, amongst others, AIHL pursuant to which, inter alia, the Offeror conditionally agreed to acquire from AIHL 861,887,920 Shares, representing approximately 74.99% of the entire issued share capital of the Company, for HK\$123 million (i.e. equivalent to HK\$0.1427 per Share). The purchase price for the Sale Shares was determined by AIHL and the Offeror after arm's length negotiations. Completion is conditional upon, among other conditions, the realignment of business between AIHL and the Company prior to Completion and completion of the Disposal.



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## LETTER FROM THE BOARD

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Following and subject to Completion, Quam Securities Company Limited will, on behalf of the Offeror, make mandatory unconditional cash offers on the terms and subject to the conditions referred to in Joint Announcement and to be set out in the Offer Document to acquire all Shares (other than those already owned by the Offeror and parties acting in concert with it) at HK\$0.1427 per Share and to acquire all the outstanding Warrants (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it) at a cash price of HK\$0.001 per Warrant. Further details of the Offers will be set out in the Offer Document.

On 1 December 2003, the Company entered into the Disposal Agreement with AIHL pursuant to which, among other things, the Company has agreed to dispose of, and AIHL has agreed to acquire, the iQuorum Sale Shares, representing the entire interest in iQuorum held by the Company. The Disposal constitutes a discloseable and connected transaction for the Company under the Listing Rules. It also constitutes a special deal under Rule 25 of the Takeovers Code. Accordingly, the Disposal is conditional upon the approval of the Independent Shareholders by way of poll. Given that the assets of the Outgoing Group comprise investments in shares of AIHL, the Disposal constitutes an off-market share repurchase by AIHL under Rule 2 of the Hong Kong Code on Share Repurchases. Accordingly, such share repurchase is subject to the approval of at least three-fourths of the votes cast on a poll by the disinterested shareholders of AIHL. In addition, the Disposal also constitutes a connected transaction of AIHL under the Listing Rules and is conditional upon the approval of the independent shareholders of AIHL.

A proposal will be put forward to change the name of the Company from “Applied (China) Limited” to MACRO-LINK International Holdings Limited subject to Completion. It is also proposed, subject to the change of English name becoming effective, to adopt 新華聯國際控股有限公司 as the Chinese name of the Company for identification purposes only.

The purposes of this circular are:

- (i) to provide you with details of the Disposal and the Change of Company Name;
- (ii) to set out the advice of the independent financial adviser in respect of the terms of the Disposal; and
- (iii) to give you notice of the SGM.

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## LETTER FROM THE BOARD

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### 2. THE DISPOSAL AGREEMENT

#### **Date of agreement**

1 December 2003

#### **Parties**

Purchaser: AIHL

Vendor: the Company

#### **Assets to be disposed of**

The entire issued share capital of iQuorum. Following completion of the Disposal Agreement, the Company will have no further interests in iQuorum.

#### **Consideration**

The consideration payable by AIHL for the iQuorum Sale Shares is HK\$51,405,065. The consideration will be satisfied by AIHL by the issue of a promissory note by AIHL in favour of the Company upon completion of the Disposal Agreement, which will be repaid by AIHL in cash in full out of the sale proceeds of the Sale Shares upon Completion.

The consideration was determined on the basis of the net asset value of the Outgoing Group as at 30 June 2003 and with reference to a valuation report dated 28 October 2003 prepared by an independent valuer in respect of the properties of the Group conducted on an open market value basis as at 30 June 2003, which is set out in Appendix I to this circular.

Completion of the Disposal will take place immediately prior to completion of the Sale and Purchase Deed. However, it should be noted that completion of the Disposal Agreement is not subject to completion of the Sale and Purchase Deed. The Directors have confirmed to AIHL that if the Sale and Purchase Deed is not completed, the Company will terminate or otherwise renegotiate the terms of the Disposal Agreement with AIHL, in order that the Disposal will not be effected. The directors of AIHL have also confirmed to the Company that if the Sale and Purchase Deed is not completed, AIHL will terminate or otherwise renegotiate the terms of the Disposal Agreement with the Company to the same effect. In the event that the Disposal Agreement Disposal is terminated or renegotiated, the Company and AIHL will take appropriate actions to ensure that the Listing Rules are fully complied with.

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## LETTER FROM THE BOARD

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### **Accounts Receivable, Bank Loan and Finance Lease**

Under the Disposal Agreement, the Company will procure that the Assignors will assign the Accounts Receivable to AIHL immediately prior to completion of the Disposal Agreement, and such assignment shall be for an aggregate consideration of HK\$1,881,677, which will be payable by AIHL to the Assignors. In order to satisfy the conditions of the Sale and Purchase Deed and in contemplation of the transactions to be effected thereunder, AIHL will in turn assign to Sheen the Accounts Receivable for nil consideration, and the assignment will take effect at completion of the Disposal Agreement.

In order to satisfy the conditions of the Sale and Purchase Deed and in contemplation of the transactions to be effected under the Disposal Agreement, AIHL will procure that, prior to completion of the Disposal Agreement, no member of the Remaining Group has any liability in respect of the Bank Loan and the Finance Lease.

### **Use of proceeds**

The net proceeds from the disposal of the iQuorum Sale Shares amount to approximately HK\$51.4 million and will be used by the Group as general working capital purposes. The consideration for the assignment of the Accounts Receivable in the amount of approximately HK\$1.88 million will be used by the Group as general working capital purposes.

### **Conditions**

As AIHL is a substantial shareholder of the Company, AIHL is a connected person of the Company under the Listing Rules. The Disposal constitutes a discloseable and connected transaction for the Company under the Listing Rules. It also constitutes a special deal under Rule 25 of the Takeovers Code and requires consent from the Executive. An application has been made by the Company to the Executive in respect of the Disposal for its consent under Rule 25 of the Takeovers Code. The Executive indicated that it will grant such consent which will be subject to the passing of a resolution to approve the Disposal by the Independent Shareholders. The resolution for the Disposal will be voted by the Independent Shareholders by way of poll and AIHL and its associates and parties acting or presumed to be acting in concert with it will abstain from voting. The interests of each of Mrs. Hung Wong Kar Gee, Mimi and Mr Hung Kin Sang, Raymond, both being Directors, are held through AIHL which will abstain from voting.

The Disposal Agreement is conditional upon:

- (a) the passing by the Independent Shareholders in a general meeting a resolution approving the Disposal Agreement and the sale of the iQuorum Sale Shares; and

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## LETTER FROM THE BOARD

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- (b) the passing by such shareholders of AIHL as may be permitted under the Listing Rules to vote in a general meeting of a resolution approving the Disposal Agreement and the purchase of the iQuorum Sale Shares.

Completion of the Disposal is not subject to, but will take place immediately prior to, completion of the Sale and Purchase Deed. In the event that the conditions of the Disposal Agreement are not fulfilled on or before the date falling 90 days after the date of the Sale and Purchase Deed (i.e. 29 February 2004) (or such other date as the Company and AIHL may agree in writing), then the Disposal Agreement will be terminated without further liability of either party to the other, save in respect of antecedent breaches of the Disposal Agreement.

### **Reasons for the Disposal**

The AIHL Group is involved in the business of design, manufacture, marketing and distribution of consumer electronic products and property investment and development.

The Group (other than the Outgoing Group) is principally engaged in the manufacture and trading of electronic and healthcare products. During the financial year ended 30 June 2003, the Group started manufacturing Chinese herbal products including Lingzhi, Cordyceps, Yunzhi and other herbal supplements for sale to health distribution centres in the PRC and to AIHL for overseas distribution. It is intended that AIHL will remain a customer of the Company after completion of the Disposal through the Ongoing Transaction.

iQuorum is at present an investment holding company and its subsidiaries are involved in investment in properties in Hong Kong and antiques and shares of AIHL.

The unaudited combined net loss before and after taxation and extraordinary items of the Outgoing Group were approximately HK\$28,937,400 and approximately HK\$29,096,100 respectively for the financial year ended 30 June 2002. The combined net loss before and after taxation and extraordinary items of the Outgoing Group were approximately HK\$156,809,600 and HK\$160,209,600 respectively for the financial year ended 30 June 2003. The unaudited pro-forma net asset value of the Outgoing Group as at 30 June 2003 was approximately HK\$51,405,000.

The major assets of the Outgoing Group include investment properties, plant and equipment, and investments in antique and shares of AIHL. The major liabilities of the Outgoing Group include bank borrowings and trade and tax payables.

The audited consolidated net loss before and after taxation of the Group were approximately HK\$32,290,572 and approximately HK\$32,449,372 respectively for the financial year ended 30 June 2002. The audited consolidated net loss before and after

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## LETTER FROM THE BOARD

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taxation of the Group were approximately HK\$163,829,314 and HK\$167,229,314 respectively for the financial year ended 30 June 2003. The audited consolidated net asset value of the Group as at 30 June 2003 was approximately HK\$117,445,865.

The unaudited combined net loss before and after taxation of the Remaining Group were approximately HK\$3,353,172 and approximately HK\$3,353,172 respectively for the financial year ended 30 June 2002. The unaudited combined net loss before and after taxation of the Remaining Group were approximately HK\$7,019,714 and HK\$7,019,714 respectively for the financial year ended 30 June 2003. The unaudited pro-forma net asset value of the Remaining Group as at 30 June 2003 was approximately HK\$117,445,865.

A realignment of businesses between AIHL and the Company prior to Completion was considered so that the Company would focus on the business of manufacturing and trading of electronic products and healthcare products in the PRC and AIHL will focus on overseas marketing and distribution of electronic and healthcare products and property investment and development in the PRC (including Hong Kong) and overseas and to that end, AIHL will, prior to Completion, acquire iQuorum, and in turn, the other members of the Outgoing Group.

On the basis of the consolidated net asset value of the Outgoing Group as at 30 June 2003 of approximately HK\$51.4 million, the aggregate consideration receivable from AIHL under the Disposal Agreement of HK\$53.3 million (including the consideration for the sale of the iQuorum Sale Shares and the assignment of the Accounts Receivable) and the estimated expenses which are incidental to the transactions being contemplated under the Sale and Purchase Deed and the Disposal Agreement of HK\$1.0 million, the Disposal is expected to result in an increase in the Group's net asset value by approximately HK\$0.9 million, or HK0.08 cent per Share. It is estimated that there will be a gain of approximately HK\$0.9 million as a result of the Disposal for the Group. Immediately prior to completion of the Disposal, all shareholder loans extended by the Company to iQuorum will be repaid by iQuorum. After completion of the Disposal, the Company will be more focused on its business of manufacture and trading of electronic products and healthcare products and the board of the Company considers that the Disposal is in the interest of the Company.

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## LETTER FROM THE BOARD

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### 3. POSSIBLE UNCONDITIONAL CASH OFFERS

Following and subject to Completion, the Offeror and parties acting in concert with it will own approximately 74.99% of the entire issued share capital of the Company (assuming that the Company's issued share capital remains unchanged from that as at the Latest Practicable Date). As a result thereof, the Offeror will be obliged under Rule 26 of the Takeovers Code to make a mandatory unconditional cash offers for all the issued Shares and the outstanding Warrants (other than those already owned by the Offeror and parties acting in concert with it). Save for the 114,926,182 outstanding Warrants, which are exercisable at any time on or before 30 April 2004 and which, if exercised in full, will result in the issue of an additional 114,926,182 Shares (based on the current exercise price of HK\$1), the Company had no outstanding convertible securities, warrants or options as at the Latest Practicable Date.

The Offers will be set out in the Offer Document.

### 4. PROPOSED CHANGE OF COMPANY NAME

It is proposed that the name of the Company be changed to "MACRO-LINK International Holdings Limited" subject to Completion and the passing of a special resolution at the SGM by the Shareholders and the Registrar of Companies in Bermuda granting approval for the change of name.

The effective date of the change of name will be the date on which the new name is entered by the Registrar of Companies in Bermuda on the register in place of the existing name. Upon the change of name becoming effective, all existing share certificates bearing the existing Shares and the existing name of the Company will continue to be evidence of title to the ordinary shares of the Company and will continue to be valid for trading, settlement and registration purposes and the rights of the Shareholders will not be affected as a result of the proposed change of name. Should the change of name becomes effective, any issue of share certificates thereafter will be in the new company name and the securities of the Company will be traded on the Stock Exchange in the new name. A further announcement will be made should the proposed change of name becomes effective.

It is also proposed that subject to the change of English name becoming effective, the Company to adopt "新華聯國際控股有限公司" as the new Chinese name of the Company for the purpose of identification only.

### 5. THE SGM

A notice convening the SGM is set out on pages 49 to 51 of this circular.

A form of proxy for use at the SGM is enclosed. Whether or not the Shareholders intend to attend and vote at the SGM in person, they are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the branch share

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## LETTER FROM THE BOARD

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registrar and transfer office of the Company in Hong Kong, Progressive Registration Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible but in any event no later than 48 hours before the time appointed for holding the SGM. Completion and return of the form of proxy will not preclude the Shareholders from attending and voting in person at the SGM or any adjourned meeting should they so wish.

### 6. RECOMMENDATIONS

As each of Mrs. Hung Wong Kar Gee, Mimi and Mr Hung Kin Sang, Raymond are directors of AIHL and are also interested in the Shares, and each of Mr Fang Chin Pang, Mr Lun Tsan Kau and Mr Lo Yun Tai are all directors of AIHL, none of them are considered independent to form the independent board committee to advise the Independent Shareholders in respect of the Disposal and the Offers. As such, Somerley has been appointed the independent financial adviser to advise the Independent Shareholders regarding the Disposal and the Offers.

The Board considers the Change of Company Name is in the interest of the Company as it reflects the change in control of the Company upon completion of the Sale and Purchase Deed. Accordingly, the Directors recommend the Shareholders to vote in favour of the special resolution relating to the Change of Company Name.

### 7. FURTHER INFORMATION

Your attention is drawn to the letter of advice from Somerley to the Independent Shareholders in relation to the Disposal set out on pages 14 to 23 of this circular and the additional information set out in the appendices to this circular.

Yours faithfully  
For and on behalf of  
**APPLIED (CHINA) LIMITED**  
**Hung Wong Kar Gee, Mimi**  
*Chairman*

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## LETTER FROM SOMERLEY

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*The following is the text of a letter of advice from Somerley, the independent financial adviser to the Independent Shareholders, which has been prepared for the purpose of incorporation into this circular, setting out its advice to the Independent Shareholders in connection with the Disposal.*



**Somerley Limited**  
Suite 3108  
One Exchange Square  
8 Connaught Place  
Central  
Hong Kong

12 January 2004

*To the Independent Shareholders of  
Applied (China) Limited*

Dear Sirs,

### **DISCLOSEABLE AND CONNECTED TRANSACTION AND SPECIAL DEAL**

We refer to our engagement to advise the Independent Shareholders in connection with the Disposal. Details of the Disposal are contained in the circular to the Shareholders dated 12 January 2004 (the “Circular”), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 1 December 2003, the Company entered into the Disposal Agreement with AIHL pursuant to which, among other things, the Company has agreed to dispose of, and AIHL has agreed to acquire, the iQuorum Sale Shares. The iQuorum Sale Shares represent the entire interest in iQuorum held by the Company. By virtue of AIHL’s controlling shareholding interest in the Company, the Disposal constitutes a connected transaction for the Company under the Listing Rules. It also constitutes a special deal under Rule 25 of the Takeovers Code. Accordingly, the Disposal is conditional upon the approval of the Independent Shareholders by way of poll.

The Board currently consists of three executive Directors and two independent non-executive Directors. Of the executive Directors, Mrs. Hung Wong Kar Gee, Mimi and Mr. Hung Kin Sang, Raymond, husband and wife, and their family members are interested in approximately 49.18% of the issued share capital of AIHL. Mr. Fang Chin Pang is a salaried employee of the Company. Mr. Lun Tsan Kau and Mr. Lo Yun Lai, who are independent non-executive Directors, both are also the independent non-executive directors of AIHL and are therefore presumed to be acting in concert with AIHL. Consequently, none of the Directors are considered independent in the context of the Disposal. We have been appointed to advise the Independent Shareholders on the fairness and reasonableness of the terms of the Disposal.



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## LETTER FROM SOMERLEY

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In formulating our opinion, we have relied on the information and facts supplied, and the opinions expressed, by the Directors. We have assumed that all representations made to us are true, accurate and complete and that the information contained in the Circular is fair and accurate and we have relied on them accordingly. We have also assumed that all representations contained or referred to in the Circular were true at the time they were made and at the date of the Circular. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed by them. We consider that we have reviewed sufficient information to enable us to reach an informed view and to provide a reasonable basis for our recommendation. We have no reason to question the accuracy of the information provided to us or to believe that any material facts have been omitted or withheld. We have not, however, conducted any independent investigation into the business and affairs of the Group or into its prospects.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In formulating our opinion as regards the Disposal, we have taken into consideration the following principal factors and reasons:

#### **1. Background to and reasons for the Disposal**

On 1 December 2003, the Offeror entered into the Sale and Purchase Deed with, among others, AIHL pursuant to which the Offeror conditionally agreed to acquire from AIHL 861,887,920 Shares, representing approximately 74.99% of the entire issued share capital of the Company, for HK\$123 million (i.e. equivalent to HK\$0.1427 per Share). On the same day, the Company entered into the Disposal Agreement with AIHL pursuant to which, among other things, the Company has agreed to dispose of, and AIHL has agreed to acquire, the iQuorum Sale Shares, representing the entire interest in iQuorum held by the Company.

Following and subject to Completion, the Offeror will become the controlling Shareholder. As stated in the Joint Announcement, at the request of the Offeror, a realignment of businesses between AIHL and the Company prior to Completion was considered so that the Company would focus on the business of manufacturing and trading of electronic products and healthcare products in the PRC, and AIHL will focus on overseas marketing and distribution of electronic and healthcare products and property investment and development in Hong Kong, the PRC and overseas. The Disposal Agreement was entered into to facilitate such realignment of businesses between AIHL and the Company.

**2. Terms of the Disposal Agreement**

*Assets to be disposed of*

Pursuant to the Disposal Agreement, the Company conditionally agreed to dispose of the iQuorum Sale Shares to AIHL. The iQuorum Sale Shares represent the entire issued share capital of iQuorum. The principal assets of the Outgoing Group include investment and leasehold properties, plant and equipment, and investments in antiques and listed securities.

*Consideration*

The consideration under the Disposal Agreement for the sale and purchase of the iQuorum Sale Shares is HK\$51,405,065. Pursuant to the terms of the Disposal Agreement, the Company will procure that the Assignors will assign the Accounts Receivable to AIHL immediately prior to completion of the Disposal Agreement, and such assignment shall be for an aggregate consideration of HK\$1,881,677 payable by AIHL to the Assignors in cash. AIHL will in turn assign to Sheen the Accounts Receivable for nil consideration, and the assignment will take effect at completion of the Disposal Agreement. Accordingly, the aggregate consideration receivable by ACL under the Disposal Agreement for the sale of the iQuorum Sale Shares and the assignment of the Accounts Receivable would be HK\$53,286,742.

Given that the assets of the Outgoing Group comprise principally properties, plant and equipment, and investments in antiques and listed securities, we consider that the asset approach is appropriate in assessing the fairness and reasonableness of the consideration under the Disposal Agreement. For this purpose, we have reviewed the proforma unaudited consolidated management accounts of the Outgoing Group as at 30 June 2003, which have been prepared based on the audited accounts of each of the members of the Outgoing Group after adjusting for the disposal of an investment property by the Group after 30 June 2003 and

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## LETTER FROM SOMERLEY

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assuming that completion of the Disposal Agreement and the Sale and Purchase Deed have taken place on 30 June 2003. The unaudited net tangible asset value of the Outgoing Group (excluding minority interests) as at that date was approximately HK\$51.4 million, which comprised:

	<i>Notes</i>	<i>HK\$ million</i>
Investment properties and leasehold properties	<i>(i)</i>	97.1
Investment in antiques	<i>(ii)</i>	18.3
Investment in shares in AIHL	<i>(iii)</i>	2.9
Other assets	<i>(iv)</i>	8.1
Current accounts with the AIHL Group – net		13.5
Cash and bank		0.3
Trade and other payables		(6.8)
Finance lease and bank borrowings	<i>(v)</i>	(76.4)
Amount due to a Director		(2.2)
Tax payable		(3.4)
		<hr/>
Unaudited net tangible asset value as at		
30 June 2003 (excluding minority interests)		<u>51.4</u>

- (i) These comprised (a) office premises in Hong Kong with total gross floor area of approximately 1,572.56 sq.m., of which approximately 32% is currently being occupied by the Group and the AIHL Group, approximately 63% are leased to independent third parties and the remaining 5% are vacant; (b) industrial buildings and staff quarters in Dongguan, the PRC (the “Industrial Buildings”) with a total gross floor area of approximately 46,603.5 sq.m., all of which are vacant; (c) four residential units in Hong Kong with total gross floor area of approximately 7,750 sq.ft. together with 6 park parking spaces. All the units are currently vacant. It is intended that two of the units will be used as quarter of the chairman of AIHL and the remaining two units will be put to let; and (d) a garden house at the Mission Hill Golf Club in Shenzhen, the PRC which is now vacant. Details of these investment properties are set out in the valuation report prepared by RHL Appraisal Limited (the “Valuer”), an independent professional valuer, contained in Appendix I to the Circular.

We have reviewed and discussed with the Valuer the basis and assumptions underlying the property valuation. In particular, we note from the legal opinion issued by the Group’s PRC legal advisers as summarised in the valuation report prepared by the Valuer contained in Appendix I to the Circular that the land grant procedures including land premium payment in respect of the Industrial Buildings have

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## LETTER FROM SOMERLEY

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not been completed and the legal title to the Industrial Buildings is not vested with the Group. Accordingly, the Industrial Buildings are considered to have no commercial value. On the whole, we consider that the approach that has been taken by the Valuer in valuing the properties to be appropriate. Based on the valuation report prepared by the Valuer, the properties held by the Outgoing Group were valued at approximately HK\$90.5 million as at 31 October 2003 on an open market basis, which is equivalent to the book value of such properties (other than the Industrial Buildings) as at 30 June 2003. The book value of the Industrial Buildings of HK\$6.6 million as at 30 June 2003 (which was stated at cost less accumulated depreciation and identified impairment loss) is equivalent to the Valuer's estimate of the depreciated replacement cost thereof.

- (ii) These represent investments in over 150 pieces of antiques. ACL has obtained an estimate from a professional antique dealer that the market selling price of similar antiques as at 31 October 2003 amounted to approximately HK\$18.1 million. The estimated market selling price of these antiques represents a decrease of approximately HK\$0.2 million from the book value of the antiques as at 30 June 2003. The report issued by the professional antique dealer is contained in Appendix II to the Circular.
  
- (iii) These represent investments in 48,329,000 shares of HK\$0.2 each in AIHL (each, an "AIHL Share") which were acquired prior to ACL became a subsidiary of AIHL in 1999. Such AIHL Shares represent approximately 5.14% of the existing issued share capital of AIHL and were stated at the market value of the AIHL Share as at 30 June 2003. The Outgoing Group also holds 9,665,800 units of warrants of AIHL (each, an "AIHL Warrant") which were acquired at no cost through a 1-for-5 bonus warrant issue by AIHL in May 2000. Such AIHL Warrants represent approximately 5.11% of the total number of outstanding AIHL Warrants as at the Latest Practicable Date. The AIHL Warrants carry subscription rights to subscribe for AIHL Shares up to 30 April 2004. Based on the closing price of the AIHL Share and the AIHL Warrant as at the Latest Practicable Date of HK\$0.099 each and HK\$0.01 each respectively, the aggregate market value of the AIHL Shares and AIHL Warrants held by the Outgoing Group was approximately HK\$4.9 million, representing an appreciation in value of approximately HK\$2.0 million from the book value as at 30 June 2003.

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## LETTER FROM SOMERLEY

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- (iv) These include principally (i) prepayment for renovation work at the residential properties in Hong Kong held by the Outgoing Group of approximately HK\$4.5 million; (ii) leasehold improvement of office premises currently occupied by the Group and the AIHL Group and two motor vehicles of approximately HK\$2.0 million which are stated at cost less accumulated depreciation; and (iii) an investment in a wet berth membership at Aberdeen Marina Club in Hong Kong, the book value of which of approximately HK\$1.5 million was stated at the Directors' estimate made with reference to quotations obtained from independent dealers. We were advised by the Directors that the renovation work at the residential properties held by the Outgoing Group is expected to be completed in early 2004. We have discussed with the Valuer the basis for the valuation of the residential properties and were advised that the valuation as at 31 October 2003 has not taken into account the renovation work being undertaken at the relevant properties.
- (v) These include borrowings of the Outgoing Group for financing the acquisitions of the properties and antiques and general working capital purpose. Such borrowings are mainly secured by the Outgoing Group's properties.

Based on the above analysis, we consider that the unaudited net tangible asset value of the Outgoing Group, taking into consideration, among others, the professional valuation of the properties, the professional antique dealer's estimate of the market selling price of the antiques and the latest market price of the AIHL Shares and the AIHL Warrants, would be adjusted as follows:

	<i>HK\$ million</i>
Unaudited net tangible asset value as at 30 June 2003 (excluding minority interest)	51.4
Minority interest as at 30 June 2003	0.3
Appreciation in market value of AIHL Shares and AIHL Warrants	2.0
Decrease in estimated market selling price of antiques	(0.2)
	53.5
Adjusted net tangible asset value of the Outgoing Group	<u>53.5</u>
Aggregate consideration receivable under the Disposal Agreement	<u>53.3</u>
Discount	0.2
	or <u>0.4%</u>

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## LETTER FROM SOMERLEY

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Having considered the nature of the Outgoing Group's assets, in particular, (i) the relatively low liquidity of the investment in antiques in general; (ii) trading volume of AIHL Shares had been thin in the past few months and it would be unlikely that all the Group's investment in AIHL Shares could be disposed of in the market without exerting a downward pressure on the market price of the AIHL Shares; and (iii) the title defects in respect of the Industrial Buildings, we consider that the Disposal provides the Group with an opportunity to dispose of certain of its less liquid assets and realise them in cash. On this basis, we consider that the consideration under the Disposal Agreement which represents a slight discount to the adjusted net tangible asset value of the Outgoing Group to be fair and reasonable.

### **Payment terms**

The consideration payable by AIHL for the iQuorum Sale Shares will be satisfied by AIHL by the issue of a promissory note in favour of the Company upon completion of the Disposal Agreement, which will be repaid by AIHL in cash in full out of the sale proceeds of the Sale Shares upon Completion. The consideration for the assignment of the Accounts Receivable shall be payable by AIHL in cash at completion of the Disposal Agreement.

Completion of the Disposal will take place immediately prior to completion of the Sale and Purchase Deed. However, it should be noted that completion of the Disposal Agreement is not subject to completion of the Sale and Purchase Deed. The Directors have confirmed to us that the Company and AIHL have mutually confirmed to each other in writing to terminate the Disposal or otherwise renegotiate the terms of the Disposal Agreement so that the Disposal will not proceed in the unlikely event that the Sale and Purchase Deed is not completed. As stated in the Joint Announcement, at the request of the Offeror, a realignment of businesses between AIHL and the Company prior to Completion was considered so that the Company would focus on the business of manufacturing and trading of electronic products and healthcare products in the PRC. The Disposal Agreement was entered into to facilitate such realignment of business at the request of the Offeror. Therefore, we consider it is reasonable that the Disposal be terminated or renegotiated in the event that the Sale and Purchase Deed is not completed. In such circumstances, the Company and AIHL will take appropriate actions to ensure that the applicable Listing Rules are fully complied with.

### **Effects of the Disposal**

#### *Net asset value*

On the basis of the consolidated net asset value of the Outgoing Group as at 30 June 2003 of approximately HK\$51.4 million, the aggregate consideration receivable from AIHL under the Disposal Agreement of HK\$53.3 million (including the consideration for the sale of the iQuorum Sale Shares and the assignment of the Accounts

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## LETTER FROM SOMERLEY

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Receivable) and the estimated expenses which are incidental to the transactions being contemplated under the Sale and Purchase Deed and the Disposal Agreement of HK\$1.0 million, the Disposal is expected to result in an increase in the Group's net asset value by approximately HK\$0.9 million, or HK0.08 cent per Share.

### *Earnings*

On the basis of the consolidated net asset value of the Outgoing Group as at 30 June 2003 and the consideration (net of estimated expenses) receivable from AIHL under the Disposal Agreement as described in the paragraph above, it is estimated that the Disposal will give rise to an one-off gain of approximately HK\$0.9 million for the Group.

Based on the 2003 annual report of the Group, the property and investment holding segment of the Group recorded turnover of approximately HK\$6.6 million for the year ended 30 June 2003. This segment recorded a loss of HK\$119.6 million, which included non-recurring items such as deficit on revaluation and impairment loss recognised in respect of the properties of HK\$84.2 million, impairment loss recognised in respect of investment in antiques of HK\$35.8 million and allowance for bad and doubtful debts of approximately HK\$3.9 million. Disregarding these non-recurring items, the property and investment holding segment would have recorded a profit before finance costs of approximately HK\$4.3 million. Taking into account the finance costs attributable to the bank borrowings and finance lease of the Outgoing Group of approximately HK\$2.3 million and the taxation charge of HK\$3.4 million, the property and investment holding segment of the Group would have recorded a loss of approximately HK\$1.4 million for the year ended 30 June 2003. Accordingly, based on the existing tenancies of the investment properties of the Outgoing Group, the Disposal is not expected to have a significant adverse effect on the future earnings of the Group.

### *Gearing*

Based on the audited consolidated accounts of the Group as at 30 June 2003, the Group had a gearing ratio (calculated as total debts divided by Shareholders' equity) of approximately 80.1%. Upon completion of the Disposal Agreement, a substantial portion of the Group's finance lease obligations and bank borrowings would have been disposed of, and the gearing ratio of the Remaining Group would be reduced to approximately 12.0%.

### *Cashflow*

On the basis of the aggregate consideration receivable under the Disposal Agreement (including the sale of the iQuorum Sale Shares and the assignment of the Accounts Receivable) of approximately HK\$53.3 million which is expected to be paid by AIHL in cash out of the proceeds from the Sale and Purchase Deed, and the estimated

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## LETTER FROM SOMERLEY

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expenses incidental to the transactions being contemplated under the Disposal Agreement and the Sale and Purchase Deed of approximately HK\$1.0 million, it is expected that the Disposal will generate cash inflow of approximately HK\$52.3 million for the Group.

### *Future business*

Following completion of the Disposal Agreement, the Group will continue to engage in the manufacture and trading of electronic and healthcare products. Based on the 2003 annual report of the Group, the manufacture and distribution of electronics products segment and health care products segment generated turnover of approximately HK\$60.7 million and HK\$3.6 million for the year ended 30 June 2003 respectively. During the same period, the manufacture and distribution of electronics products segment recorded a profit of approximately HK\$0.08 million, while the health care products segment recorded a loss of approximately HK\$1.2 million. Assets (net of liabilities) employed in these two business segments amounted to approximately HK\$27.7 million and HK\$11.8 million as at 30 June 2003 respectively. On this basis, we consider that the Remaining Group will maintain a significant level of assets and operations after the Disposal Agreement.

## CONCLUSION AND ADVICE

Having considered the above principal reasons and factors, in particular,

- (i) following and subject to Completion, the Offeror will become the controlling Shareholder. The Disposal is effected at the request of the Offeror to realign the businesses between AHIL and the Company;
- (ii) the aggregate consideration receivable under the Disposal Agreement (including the consideration for the sale of the iQuorum Sale Shares and the assignment of the Accounts Receivable) represents a slight discount of 0.4% to the adjusted net tangible asset value of the Outgoing Group as at 30 June 2003, which is arrived at after taking into consideration the professional valuation of the properties by the Valuer as at 31 October 2003, the latest market value of the AIHL Shares and AIHL Warrants, and the professional antique dealer's estimate of the market selling price of the antiques as at 31 October 2003;
- (iii) the Disposal is expected to result in an increase in the Group's net asset value and an one-off gain of approximately HK\$0.9 million and reduce the gearing of the Group from 80.1% to 12.0%; and
- (iv) the Disposal is not expected to adversely affect the earnings of the Group and the Remaining Group will maintain a significant level of assets and operations after the Disposal Agreement,



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## LETTER FROM SOMERLEY

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we are of the opinion that the Disposal is in the interests of the Company and its shareholders as a whole and that the terms of the Disposal Agreement are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Shareholders to vote for the resolution to be proposed at the SGM to approve the Disposal.

Yours faithfully,  
for and on behalf of  
**SOMERLEY LIMITED**  
**Mei H. Leung**  
*Managing Director*

*The following is the text of the letter, summary of values and valuation certificates received from RHL Appraisal Limited, an independent valuer, prepared for the purpose of inclusion in this circular, in connection with its valuation of the properties.*



Member of RHL International Property Consultants  
永利行國際物業顧問集團成員

**RHL Appraisal Ltd.**  
**永利行評值顧問有限公司**

Surveyors, Valuers, Land & Property Consultants  
Room 1010, Star House, Tsimshatsui,  
Kowloon, Hong Kong

12 January 2004

The Directors  
Applied (China) Limited  
Suite 4103-5, 41st Floor  
Far East Finance Centre  
16 Harcourt Road  
Central  
Hong Kong

Dear Sirs,

**Re: Valuation of Properties in Hong Kong and in the People's Republic of China (the "PRC")**

**1. INSTRUCTION**

In accordance with the instructions from **Applied (China) Limited** (referred to as the "Company"), we have valued all property (referred to as the "Property") situated in Hong Kong and the People's Republic of China (referred to as the "PRC") held by the iQuorum Cybernet Limited or its subsidiaries (the "Outgoing Group"). We confirm that we have carried out property inspection, made relevant enquires and obtained such further information as we consider necessary for the purpose of providing our opinion of the open market value of the Property as at 31 October 2003 (referred to as the "valuation date").

This letter, which forms part of our valuation report explains the basis and methodology of valuation and set out assumptions made and other qualifications.

**2. BASIS OF VALUATION**

Our valuation is our opinion of the open market value which we would define as intended to mean "the best price at which the sale of an interest in property would have been completed unconditionally for cash consideration on the date of valuation assuming:

- (i) a willing seller;

- (ii) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of price and terms and for the completion of the sale;
- (iii) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;
- (iv) that no account is taken of any additional bid by a purchaser with a special interest; and
- (v) that both parties to the transaction had acted knowledgeably, prudently and without compulsion.”

### **3. VALUATION METHODOLOGY**

The properties which are occupied by the Company or left vacant have been valued on an open market basis assuming sale with the benefit of immediate vacant possession and by reference to comparable sales evidence as available on the market.

For those properties which were subject to tenancies as at the date of valuation, we have also adopted the “Investment Method” on the basis of capitalization of the net rental incomes with due allowance for reversionary income potential.

Properties numbered 5 and 6 have no commercial value on the reason that the land grant procedures for them have not yet been completed as at the valuation date.

The depreciated replacement costs as disclosed in the footnote of property numbered 5 and 6 were arrived at based on the new replacement cost of their buildings and other site works from which deductions are then made to allow for age, conditions, functional obsolescence, etc. Our opinion of the depreciated replacement costs is subject to the assumption that prospective earnings would provide a reasonable return on that property plus adequate net working capital and the value of any assets not included in this valuation.

### **4. ASSUMPTIONS**

Except the properties numbered 5 and 6, our valuation has been made on the assumption that the owners sell the properties on the open market in their existing states without the benefit of deferred terms contracts, leasebacks, joint ventures, management agreements or any similar arrangements which would serve to affect their values of the properties.

We have also assumed that there is no legal impediment to the Outgoing Group’s obtaining the Building and Land Ownership Certificate for property numbered 7.

As the properties save for the properties numbered 5 and 6, are being held by the Company on long term Government Leases or Land Use Rights Contracts, we have assumed that the Company has free and uninterrupted rights to use the properties for the whole of the unexpired terms of their respective Government Leases or Land Use Right Contracts subject to payment of annual land use fees and all requisite land premium/purchase consideration payable has been fully settled. Vacant possession is assumed for properties owned and occupied by the Company.

Other special assumptions in relation to each property, if any, have been stated out in the footnotes of the valuation certificates for each corresponding property.

## **5. TITLE INVESTIGATION**

We have been, in some instances, provided with extracts of title documents relating to the properties. In addition, we have caused searches to be made at the Land Registry for the properties in Hong Kong. All documents have been used for reference only.

In the respect of the properties located in the PRC, we have also relied upon the legal opinion provided by the PRC legal adviser, Hills & Co (廣東君道律師事務所), to the Company on the relevant laws and regulations in the PRC and on the Outgoing Group's land use rights in the properties as at the valuation date.

## **6. LIMITING CONDITIONS**

We have inspected the exterior and the interior of the properties but no structural survey has been made. In the course of our inspection, we did not note any serious defects. We are not, however, able to report that the properties are free from rot, infestation or any other structural defects. No tests were carried out on any of the services. All dimensions, measurements and areas are approximate.

Moreover, we have not carried out site investigation to determine the suitability of the ground condition or the services for any future development. We have assumed that these aspects are satisfactory and that no extraordinary expense or delay will incurred during the construction period.

We have relied to a considerable extent on the information provided by the Company and have accepted advice given to us by the Company on such matters as statutory notices, easements, tenure, occupation, site and floor areas and in the identification of those properties in which the Company has a valid interest.

With the exception of the properties numbered 5 and 6, no allowance has been made in our valuation for any charges, mortgages or amount owing on any properties nor for any expense or taxation which may be incurred in effecting a sale. We have assumed that they are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

We have no reason to doubt the truth and accuracy of the information as provided to us by the Company. We have relied on the Company's confirmation that no material facts have been omitted from the information supplied.

According to the information provided by the Company, the potential tax liability which would arise on the disposal of the properties situated in the PRC are business tax, PRC land capital gain tax and PRC corporate tax. In the course of our valuation, we have neither verified nor taken into account such tax liability. As advised by the Company, no tax liability would arise if the properties were to be sold at the amount of valuation. In respect of the properties which are held by the Company for investment in Hong Kong, no tax liability will arise if the properties are to be sold at the amount of valuation.

Our valuations have been prepared in accordance with the Guidance Notes on the Valuation of Property Assets (2nd Edition) published by the Hong Kong Institute of Surveyors and compiled with all the requirements contained in Chapter 5 of the Listing Rules and the Practice Notes 12 issued by the Stock Exchange of Hong Kong Limited.

## **7. REMARKS**

We have valued the properties in Hong Kong Dollars (\$). The conversion of Renminbi (RMB) into Hong Kong Dollars is based on the factor of \$1.00 to RMB1.06 with reference to the prevailing exchange rate on the valuation date.

We enclosed herewith the summary of valuation and the valuation certificates.

Yours faithfully,  
For and on behalf of  
**RHL Appraisal Ltd.**

**Wayne W.K. Lee**  
*MRICS MHKIS RPS(GP)*  
*Director*

**Tse Wai Leung**  
*BSc MRICS MHKIS RPS(GP)*  
*Director*

*Wayne W.K. Lee is a member of the Royal Institution of Chartered Surveyors, an Associate of the Hong Kong Institute of Surveyors and a Registered Professional Surveyor in General Practice. Tse Wai Leung, who is a member of the Royal Institution of Chartered Surveyors, an Associate of the Hong Kong Institute of Surveyors, a Registered Professional Surveyor in General Practice and a qualified real estate appraiser in the PRC. Both of them have over eight years' experience in valuation of properties in Hong Kong and in the PRC.*

## SUMMARY OF VALUATION

Property	Open market value as at 31 October 2003	Interest attributable to the Company	Value of property interest attributable to the Company as at 31 October 2003
<b>Group I – Property Interests held by the Outgoing Group in Hong Kong</b>			
1. Unit Nos. 4101–2 on 41st Floor Far East Finance Centre 16 Harcourt Road Hong Kong	HK\$17,000,000	100%	HK\$17,000,000
2. Unit Nos. 4103–5 on 41st Floor Far East Finance Centre 16 Harcourt Road Hong Kong	HK\$17,200,000	100%	HK\$17,200,000
3. Unit Nos. 4203–4 on 42nd Floor Far East Finance Centre 16 Harcourt Road Hong Kong	HK\$16,600,000	100%	HK\$16,600,000
4. Units B on 1st Floor, 2nd Floor, 3rd Floor together with the roof thereof, Garden B appertaining thereto, Unit A on 1st Floor, Garden A and Car Parking Spaces 1, 2, 3, 4, 5 and 7 on Ground Floor Severn Villa No. 3 Severn Road the Peak Hong Kong	HK\$38,000,000	100%	HK\$38,000,000

Property	Open market value as at 31 October 2003	Interest attributable to the Company	Value of property interest attributable to the Company as at 31 October 2003
<b>Group II – Property Interests held by the Outgoing Group in the PRC</b>			
5. North Portion of Starmate Industrial Park Tutang District Changping Town Dongguan Guangdong Province the PRC	No Commercial Value	100%	No Commercial Value
6. South Portion of Starmate Industrial Park Tutang District Changping Town Dongguan Guangdong Province the PRC	No Commercial Value	100%	No Commercial Value
7. House No. C11 Regent on the Park Mission Hills Road Guanlan Town Shenzhen the PRC	No Commercial Level	100%	No Commercial Value
<b>Grand total:</b>	<b><u>HK\$88,800,000</u></b>		<b><u>HK\$88,800,000</u></b>

## VALUATION CERTIFICATE

## Group I – Property Interests held by the Outgoing Group in Hong Kong

Property	Description and tenure	Particulars of occupancy	Open market value as at 31 October 2003
1. Unit Nos. 4101-2 on 41st Floor Far East Finance Centre 16 Harcourt Road Hong Kong	<p>The property comprises two office units on the 41st floor of a 45-storey commercial building completed in 1982.</p> <p>The gross floor area of the property is 499.72 square metres (5,379 square feet).</p> <p>The subject lot is held under Conditions of sale No. 11418 for a term of 75 years and is renewable for another 75 years commencing from 23 July 1980.</p>	<p>The property is subject to two tenancies for terms of 2 years expiring on between 31 May 2003 and 16 December 2003 at a total monthly rent of HK\$136,254.</p>	HK\$17,000,000
<p><i>Note:</i> The registered owner of the property is R J P Electronics Limited (a wholly owned subsidiary of the Company).</p>			
2. Unit Nos. 4103-5 on 41st Floor Far East Finance Centre 16 Harcourt Road Hong Kong	<p>The property comprises three office units on the 41st floor of a 45-storey commercial building completed in 1982.</p> <p>The gross floor area of the property is 503.72 square metres (5,422 square feet).</p> <p>The subject lot is held under Conditions of sale No. 11418 for a term of 75 years and is renewable for another 75 years commencing from 23 July 1980.</p>	<p>Portion of the property with a gross floor area of 251.86 square metres (2,711 square feet) is subject to a tenancy at a monthly rent of HK\$75,894 on monthly basis whilst the remaining portion of the property is owner-occupied.</p>	HK\$17,200,000
<p><i>Note:</i> The registered owner of the property is R J P Electronics Limited (a wholly owned subsidiary of the Company).</p>			



## VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Open market value as at 31 October 2003
3. Unit Nos. 4203-4 on 42nd Floor Far East Finance Centre 16 Harcourt Road Hong Kong	<p>The property comprises two office units on 42nd floor of a 45-storey commercial building completed in 1982.</p> <p>The gross floor area of the property is 569.12 square metres (6,126 square feet).</p> <p>The subject lot is held under Conditions of sale No. 11418 for a term of 75 years and is renewable for another 75 years commencing from 23 July 1980.</p>	<p>As at the date of our valuation, portion of the property with a gross floor area 496.38 square metres (5,343 square feet) was subject to various tenancies with the latest tenancy expiring on 27 July 2004 at a total monthly rent of HK\$122,183 exclusive of rates and management fee whilst the remaining portion of the property was vacant.</p>	HK\$16,600,000

*Note:* The registered owner of the property is R J P Electronics Limited (a wholly owned subsidiary of the Company).

4. Units B on 1st Floor, 2nd Floor, 3rd Floor together with the roof thereof, Garden B appertaining thereto, Unit A on 1st Floor, Garden A and Car Parking Spaces 1, 2, 3, 4, 5 and 7 on Ground Floor Severn Villa No. 3 Severn Road the Peak Hong Kong	<p>The property comprises 4 residential units on the 1st, 2nd and 3rd floors with the roof thereof and 6 car parking spaces on ground floor of a 4-storey residential building completed in 1982.</p> <p>The total gross floor area (excluding car parking spaces) and roof area of the property are 6,200 square feet and 1,550 square feet respectively.</p> <p>The subject lot is held under Government Lease for a term of 75 years and is renewable for another 75 years commencing from 13 December 1920.</p>	<p>As at the date of our valuation, the property was vacant and under renovation.</p>	HK\$38,000,000
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*Notes:*

1. The registered owner of the property is Incar Electronics Limited (a wholly owned subsidiary of the Company).
2. The property is subject to a Mortgage to secure general banking facilities in favour of Hang Seng Bank Limited vide Memorial No. 8515028 dated 25 September 2001.

## VALUATION CERTIFICATE

## Group II – Property Interests held by the Outgoing Group in the PRC

Property	Description and tenure	Particulars of occupancy	Open market value as at 31 October 2003
5. North Portion of Starmate Industrial Park Tutang District Changping Town Dongguan Guangdong Province the PRC	The property comprises a site with an area of approximately 28,886.3 square metres.  As at the valuation date, the property was erected with various 2 to 4-storey industrial buildings and staff quarters providing a total gross floor area of approximately 20,315 square metres.	As confirmed by the Company, the property is currently vacant.	No Commercial Value <i>(Please see note 3)</i>

*Notes:*

1. As stipulated in an Investment Certificate (投資證明書) dated 3 May 1994, the property is held by Dongguan Incar Electronics Co., Ltd. (東莞欣佳電子有限公司) which is a wholly-owned subsidiary of the Company.
2. The status of title and grant of major approvals and licences relating to the property in accordance with information provided by the Company are as follows:

Land Use Right Contract	No
Land Use Right Certificate	No
Red-line Drawing	No
Permit for Overseas Sales	No
Business Licence	Yes
Investment Certificate	Yes
3. The property has no commercial value due to the fact that the land grant procedures including land premium payment for the property have not yet been completed. As at the valuation date, the depreciated replacement cost of the land improvement works in the property is HK\$2,900,000.
4. The legal opinion from the PRC legal adviser to the Company on the property is summarized as follows:
  - 4.1 As Dongguan Incar Electronics Co., Ltd. have not yet completed the land grant procedures for the property, the legal title to the property is not vested in Dongguan Incar Electronics Co., Ltd..
  - 4.2 With the approval from the relevant government authority of Dongguan, Dongguan Incar Electronics Co., Ltd. shall be able to complete land grant procedures in order to secure valid legal interest in the property. Upon obtaining valid legal interest, Dongguan Incar Electronics Co., Ltd. shall have the right to lease, mortgage or dispose of the property.
5. As confirmed by the Company, the current land premium to be incurred for completing land grant procedures for the property is RMB60.1 per square metre of land area (i.e. a total land premium of approximately RMB1,736,066) shall be payable by Dongguan Incar Electronics Co., Ltd. (東莞欣佳電子有限公司). There are no other outstanding costs payable.

## VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Open market value as at 31 October 2003
6. South Portion of Starmate Industrial Park Tutang District Changping Town Dongguan Guangdong Province the PRC	The property comprises a site with an area of approximately 19,639.9 square metres.  As at the valuation date, the property was erected with various 2 to 4-storey industrial buildings and staff quarters providing a total gross floor area of approximately 26,288.5 square metres.	As confirmed by the Company, the property is currently vacant.	No Commercial Value <i>(Please see note 3)</i>

*Notes:*

1. As stipulated in an Investment Certificate (投資證明書) dated 3 May 1994, the property is held by Dongguan Man Lee Plastic Products Co., Ltd. (東莞萬利塑膠製品有限公司) which is a wholly-owned subsidiary of the Company.
2. The status of title and grant of major approvals and licences relating to the property in accordance with information provided by the Company are as follows:

Land Use Right Contract	No
Land Use Right Certificate	No
Red-line Drawing	No
Permit for Overseas Sales	No
Business Licence	Yes
Investment Certificate	Yes
3. The property has no commercial value due to the fact that the land grant procedures including land premium payment for the property have not yet been completed. As at the valuation date, the depreciated replacement cost of the land improvement works in the property is HK\$3,700,000.
4. The legal opinion from the PRC legal adviser to the Company on the property is summarized as follows:
  - 4.1 As Dongguan Man Lee Plastic Products Co., Ltd. have not yet completed the land grant procedures for the property, the legal title to the property is not vested in Dongguan Man Lee Plastic Products Co., Ltd..
  - 4.2 With the approval from the relevant government authority of Dongguan Man Lee Plastic Products Co., Ltd. shall be able to complete land grant procedures in order to secure valid legal interest in the property. Upon obtaining valid legal interest, Dongguan Man Lee Plastic Products Co., Ltd. shall have the right to lease, mortgage or dispose of the property.
5. As confirmed by the Company, the land premium to be incurred for completing land grant procedures for the property is RMB60.1 per square metre of land area (i.e. a total land premium of approximately RMB1,180,358) shall be payable by Dongguan Man Lee Plastic Products Co., Ltd. (東莞萬利塑膠製品有限公司). There are no other outstanding costs payable.

## VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Open market value as at 31 October 2003
7. House No. C11, Regent on the Park Mission Hills Road Guanlan Town Shenzhen the PRC	<p>The Mission Hills Golf Club is a multi-functional recreational complex accommodates five 18-hole championship golf courses, a golf clubhouse, a resort hotel and a country club. Low density residential developments in the form of garden houses and low-rise condominium are planned within the Golf Club.</p> <p>The property comprises a 2-storey garden house completed in 1999.</p> <p>The gross floor area and garden area of the property are 191.76 square metres and 508.90 square metres respectively.</p>	As at the date of our valuation, the property was vacant.	No Commercial Value <i>(please see note 6)</i>

*Notes:*

1. Pursuant to two sets of Agreement for Sale and Purchase both dated 21 July 2001 and entered into between Shenzhen Guanlanhu Property Development Co., Ltd. ("the Developer") and Tronicwatch Ltd ("the Purchaser"), a wholly-owned subsidiary of the Company and two sets of Supplemental Agreements both dated 1 August 2000 and entered into by the same parties, the Purchaser acquired Units 603 and 605, Tower B of the subject development ("Units 603 & 605") from the Developer at a total consideration of RMB1,724,800 which has been fully settled by the Outgoing Group.
2. Pursuant to an Agreement dated 7 March 2002 entered into among the Purchaser, Janet Ng who is the ex-owner of the property and B2C.com.hk Ltd. ("B2C"), a wholly-owned subsidiary of the Company, Units 603 and 605 of the Purchaser plus an additional sum of HK\$970,000 paid by B2C were swapped with the property of Janet Ng. After the transaction, the legal interest of the property is vested in B2C.
3. We have assumed that the property is held for a term of 70 years for residential purpose as stated in the land law of PRC.
4. The legal opinion from the PRC legal adviser to the Company on the property is summarized as follows:
  - 4.1 The property was acquired by B2C from a third party by way of property exchange;
  - 4.2 Before the property exchange, B2C, through its associate company, Tronicwatch Ltd., acquired Units 603 and 605, Tower B of the subject development ("Units 603 & 605") from Shenzhen Guanlanhu Property Development Co., Ltd via two sets of Agreement for Sale and Purchase both dated 21 July 2001; and
  - 4.3 After completing the aforesaid property transaction, B2C entered into an Agreement with Janet Ng (the former owner of the subject property) on 7 March 2002, by virtue of which Units 603 & 605 of B2C was swapped with the subject property of Janet Ng. As a result, B2C become the owner of the subject property subject to completion of title registration procedures by B2C.

5. The status of title and grant of major approvals and licences relating to the property in accordance with information provided by the Company are as follows:

Land Use Right Certificate	Yes (in the name of the Developer)
Building and Land Ownership Certificate	Not yet applied for by the Outgoing Group
Agreement for Sale and Purchase	Yes
Permit for Overseas Sales	No
Business Licence	Yes

6. Upon completion of title registration, the open market value of the property attributable to the Outgoing Group is HK\$1,730,000.

*The following is the text of the letter, summary of values and valuation certificates received from Castle of Antiquities Co. Ltd., an independent expert, prepared for the purpose of inclusion in this circular, in connection with its valuation of the antiques.*



古城藝術品有限公司  
Castle of Antiquities Co. Ltd.

12 January 2004

The Board of Directors  
Applied (China) Limited  
41/F., Far East Finance Centre  
16 Harcourt Road  
Central  
Hong Kong

Dear Sirs

**Subject : Valuation of Furniture, Ceramics and Paintings (“Antiques”) located at 41/F, Far East Finance Centre, 16 Harcourt Road, Central, Hong Kong and Michelle International Transport Co., Ltd.**

## 1. INSTRUCTIONS

In accordance with the instructions from Applied China Ltd (the “Company”), we have assessed the fair market value of the Antiques within its office premises and Michelle International Transport Co. Ltd., an independent third party of the Company which provides storage facilities for part of the Antiques, as at 31 October 2003 (the “valuation date”).

We confirm that we have undertaken inspection of the Antiques, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the fair market value of the Antiques.

## 2. BASIS OF VALUATION

The Antiques have been valued on the basis of fair market value.

Fair market value is defined as the estimated amount at which the assets might be expected to exchange between a willing buyer and a willing seller with equity to both, neither being under any compulsion, each having reasonable knowledge of all relevant facts.

### 3. INVESTIGATION AND ASSUMPTIONS

9 of the Antiques were auctioned by Sotheby, and none of them has been successfully bid to reach the target selling price of the Company.

Due to the downturn in the worldwide economy, many auctioneers have experienced over 50% of their items for auction being unsold.

Before arriving at our opinion in the fair market value of the Antiques, we have physically inspected the Antiques, studied worldwide market conditions relating to antiques in general and considered all relevant factors concerning the antique market based on our experience and expertise in the antique market (including comparing with the highest bid auction price of comparable items and taking into consideration comparable items which have been exhibited in world-class museums in London, New York and Paris).

### 4. OPINION OF VALUE

To the best of our knowledge, all data set forth in this report is true and accurate. Although gathered from reliable sources, no guarantee is made nor liability assumed for the accuracy of any data, opinions or estimates identified as being furnished by others which have been used in formulating this analysis.

Based on the investigation described, it is our opinion that as at the valuation date the fair market value of the Antiques is the amount of Hong Kong Dollars Eighteen Million and Eighty Thousand Only (HK\$18,080,000).

Valuation details as at 31 October 2003 are per attached.

### 5. QUALIFICATION

We are a company which is principally engaged in the antique business. Mr. Lee Man Shing, our managing director, has been involved in the antique business since 1980 and is the consultant to TT Tsui Museums around the world in London, Chicago, Toronto, Shanghai, Singapore and Hong Kong, and our customers include the top 10 international dealers to world-class museums.

Your faithfully  
For and on behalf of  
**Castles of Antiquities Co. Ltd.**  
**Lee Man Shing**  
*Managing Director*

## APPLIED (CHINA) LIMITED

Valuation for Antiques as at 31 October 2003

DESCRIPTION	QTY	VALUATION
		AT 31-OCT-03 HK\$
(1) Huanghuali half-round table	1	55,000.00
(2) Luohan bed	1	420,000.00
(3) Huanghuali tapered round corner cabinet	1	80,000.00
(4) Huanghuali day bed	1	250,000.00
(5) High waist square table	1	55,000.00
(6) Square stool	2	25,000.00
(7) Huanghuali small square cabinet	2	140,000.00
(8) Drum stools	2	110,000.00
(9) Folding chair	1	105,000.00
(10) Chi Chih Mu curio box	1	30,000.00
(11) Zitan lotus stand	1	8,000.00
(12) Elmwood one drawer coffer	1	2,000.00
(13) Zitan table with detachable legs	1	140,000.00
(14) Huanghuali shrine	1	10,000.00
(15) Chi Chih Mu cabinet with many drawers	1	50,000.00
(16) Huanghuali small lobed pot	1	5,000.00
(17) Zitan side table with inserted shoulder	1	90,000.00
(18) Chi Chih Mu carving	1	7,000.00
(19) Partner writing desk	1	300,000.00
(20) Chi Chih Mu long armchair	1	12,000.00
(21) Huanghuali bed	1	500,000.00
(22) Huanghuali armchair	2	420,000.00
(23) Zitan square stools	2	25,000.00
(24) Huanghuali kang table with folding legs	1	90,000.00
(25) Huanghuali stool with humpback stretcher	1	30,000.00
(26) Zitan stationary box	1	10,000.00
(27) Huanghuali small box with handles	1	9,000.00
(28) Huanghuali small headrest	1	8,000.00
(29) Large huanghuali brush pot	1	14,000.00
(30) Huanghuali scholar box with drawers	1	14,000.00
(31) Huanghuali folding stool with footrest on both sides	1	200,000.00
(32) Late Ming Dynasty huanghuali table	1	100,000.00
(33) Ching Dynasty huanghuali horse-shoe-back armchair	1	135,000.00
(34) Late Ming Dynasty huanghuali rectangular table	1	150,000.00
(35) Ching Dynasty tzu-tan horse-shoe-back armchair	1	100,000.00
(36) Huanghuali large circular stand	1	175,000.00



DESCRIPTION	QTY	VALUATION
		AT 31-OCT-03 HK\$
(37) A pair of large gilt-bronze guardian king	1	950,000.00
(38) Huanghuali rectangular box with handles	1	85,000.00
(39) Ink boxes, round and lotus shape	2	95,000.00
(40) Late Ming Dynasty huanghuali horse-shoe-back armchair	1	520,000.00
(41) Ching Dynasty tzu-tan sloping-stile, wood-hinged cabinet	1	160,000.00
(42) Ching Dynasty tzu-tan cosmetic box	1	70,000.00
(43) Huanghuali rectangular table	1	100,000.00
(44) Huanghuali pair of square stool	1	100,000.00
(45) Ching Dynasty tzu-tan sloping-stile, wood-hinged cabinet	1	500,000.00
(46) Ching Dynasty tzu-tan foot massage little stand (1 pair)	1	170,000.00
(47) Ching Dynasty tzu-tan little rectangular table	1	110,000.00
(48) Ching Dynasty tzu-tan little table	1	38,000.00
(49) Huanghuali pair of wood-hinged cabinets	1	270,000.00
(50) Ching Dynasty tzu-tan horse-shoe-back armchair	1	120,000.00
(51) Ching Dynasty tzu-tan – candle stand	1	10,000.00
(52) Ching Dynasty tzu-tan stand	1	4,000.00
(53) Huanghuali screen 12 pcs	1	800,000.00
(54) Huanghuali foot-stool	1	11,000.00
(55) Huanghuali Ch'uang with sold sailings	1	590,000.00
(56) Ching Dynasty huanghuali horse riding pad	1	13,000.00
(57) Ching Dynasty tzu-tan square stools	1	40,000.00
(58) Huanghuali round stool with curvilinear legs	1	190,000.00
(59) Huanghuali low game table with detachable chess board	1	90,000.00
(60) Court lady with a musical instrument	1	24,000.00
(61) Huanghuali small square stand with dragon carving	1	30,000.00
(62) Ching Dynasty case and brass case	1	50,000.00
(63) Ching Dynasty horse-shoe-back armchair	1	55,000.00
(64) Ching Dynasty huanghuali head box	1	35,000.00
(65) Huanghuali little stand	1	22,000.00
(66) Ching Dynasty tzu-tan traveller case	1	30,000.00
(67) Late Ming Dynasty black rectangular table	1	150,000.00
(68) Carved zitan table screen	1	70,000.00
(69) Antique Huang Hua-Li Wood Six-Legs	1	580,000.00
(70) Antique Huang Hua-Li Wood Square Foot-Stool	1	200,000.00
(71) Antique Huang Hua-Li Wood Rectangular	1	120,000.00
(72) Antique Huang Hua-Li Wood Wei-Qi Box	2	45,000.00
(73) Antique Huang Hua-Li Wood Brush Pot	1	55,000.00
(74) Antique Carved Root-Wood Stand	2	10,000.00
(75) Men's Hat Trunk in Natural Cow Hide	1	10,000.00

DESCRIPTION	QTY	VALUATION
		AT 31-OCT-03 HK\$
(76) Courier Trunk in Natural Cow Hide	1	20,000.00
(77) Suite-Courier in Natural Cow Hide	1	10,000.00
(78) Suite-Carrier in Crocodile Skin	1	50,000.00
(79) A Rare Album Box – Huanghuali wood, early 18th century	1	40,000.00
(80) A Scholar's Tray	1	7,000.00
(81) Zitan core	1	5,000.00
(82) K'ang table	1	15,000.00
(83) Zitan ancient box	1	22,000.00
(84) K'ang table	1	10,000.00
(85) Zitan stationary box	1	22,000.00
(86) Marguetry inlaid kang table	1	150,000.00
(87) Qin form scroll weights/domino box	2	20,000.00
(88) Huanghuali abacus	1	8,000.00
(89) Huanghuali rectangular table with golden line inlay	1	270,000.00
(90) Huanghuali bamboo design small table	1	50,000.00
(91) Huanghuali low-back armchairs	2	100,000.00
(92) Huanghuali bookcase with dragon and lotus design	1	500,000.00
(93) Huanghuali painting table	1	150,000.00
(94) Southern official armchairs with mat on back splat and fan shaped seat	2	200,000.00
(95) Large huanghuali foot stool for canopy bed	1	190,000.00
(96) Late Ming Dynasty Huanghuali rectangular folding table	1	210,000.00
(97) Late Ming Dynasty Huanghuali little cabinet 1 pair	1	180,000.00
(98) Ching Dynasty huanghuali cabinet	1	150,000.00
(99) Painting table	1	150,000.00
(100) Ching Dynasty horse-shoe-back armchair 1 pair	1	110,000.00
(101) Ching Dynasty chi chi mu K'ang table with everted flanges	1	180,000.00
(102) Late Ming Ch'uang with humpback railings	1	100,000.00
(103) Lobed stand, black lacquer with mother-of-pearl inlay	1	300,000.00
(104) Huanghuali sloping, wood-hinged cabinets 1 pair	1	450,000.00
(105) Huanghuali six-post canopy bed	1	150,000.00
(106) Huanghuali square game table	1	50,000.00
(107) Huanghuali chinese chess game	1	75,000.00
(108) Zitan triangle chair	1	140,000.00
(109) Huanghuali meditation stool with curvilinear aprons, rounded surface on the exterior sides of the legs	1	170,000.00
(110) Huanghuali Incense Stand	1	400,000.00

DESCRIPTION	QTY	VALUATION AT 31-OCT-03 HK\$
(111) Paintings of “Green Love Poem” and “Spring”	2	100,000.00
(112) Painting of “Early Spring”	1	10,000.00
(113) A figure of “Thousand Hand” Guan Yin	1	–
(114) Painted & gilt pottery horse, northern Qi Dynasty	1	50,000.00
(115) Sancai glazed horse, Tang Dynasty	1	480,000.00
(116) Sancai glazed figure of a groom, Tang Dynasty	1	90,000.00
(117) Pottery tank	1	9,000.00
(118) Pair of pottery horse, Tang Dynasty	2	100,000.00
(119) Han Dynasty pottery tank	1	8,000.00
(120) A large sancai-glazed pottery camel, Tang Dynasty	1	500,000.00
(121) A painted pottery camel with saddle pack, Tang Dynasty	1	180,000.00
(122) Painted pottery figure of a lokapala, Tang Dynasty	1	180,000.00
(123) Han Dynasty brass sword with sword case	1	100,000.00
(124) An ancient wooden Chinese Zither	1	8,000.00
(125) Dinosaur eggs 4 pcs.	4	–
(126) A Sichuan pottery entertainer	1	100,000.00
(127) A pair of marble top hongmu drumstools	1	10,000.00
(128) A massive camphor chest	1	20,000.00
(129) A pair of lacquered stands	1	150,000.00
(130) A baitong-mounted huanghuali box/cover and two huanghuali brass-mounted boxes	1	10,000.00
(131) A small huanghuali corner leg table	1	180,000.00
(132) A rare huanghuali travelling bookcase	1	160,000.00
(133) A pair of ivory hammock fittings	1	10,000.00
(134) A Tang ceramic money chest	1	220,000.00
(135) Sancai glazed pottery basin	1	100,000.00
(136) Sancai glazed pottery figure of a dignitary	1	25,000.00
(137) Sancai glazed pottery tripod jar	1	20,000.00
(138) Blue & white glazed pottery small bowl	1	10,000.00
(139) Brass chain 19th C.	2	5,000.00
(140) Huanghuali wood yoke back armchair with Dragon Carving Panel	1	150,000.00
(141) Painting “March”	1	30,000.00
(142) Huanghuali fruit-plate stand	1	15,000.00
		<b><u>18,080,000.00</u></b>

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules and the Takeovers Code for the purpose of giving information with regard to the Company. The information contained herein has been supplied by the Directors. The Directors jointly and severally accept full responsibility for the accuracy of such information and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement herein misleading.

## 2. DISCLOSURE OF INTERESTS

### (a) Disclosure of interests by the Directors

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

#### (i) Long positions in Shares

Name	Number of Shares held – Corporate interests <i>(Note)</i>	Number of Warrants held – Corporate interests <i>(Note)</i>
Hung Wong Kar Gee, Mimi	861,887,920	59,202,503
Hung Kin Sang, Raymond	861,887,920	59,202,503

*Note:* 604,263,167 Shares and 58,702,517 Warrants were held by Batimate Limited, and 1,118 Shares and 111 Warrants were held by Applied Electronics Limited, both of which are wholly-owned subsidiaries of AIHL. The remaining 257,623,635 Shares and 499,875 Warrants were held by AIHL. Mrs Hung Wong Kar Gee, Mimi and Mr Hung Kin Sang, Raymond, are the substantial shareholders of AIHL.

## (ii) Long position in shares of associated corporations

Name	Number of underlying Shares/capacity		Name of associated corporation	Total number of shares	Approximate % shareholding
	Beneficial	Other			
Fang Chin Ping	199,999	1 (Note 3)	Quorum Bio-Tech Limited (Note 3)	200,000	2%

Note:

- (3) Fang Chin Ping is the registered holder of 200,000 shares of Quorum Bio-Tech Limited, a 89.00001% owned subsidiary of iQuorum, of which he holds 1 share on trust for iQuorum.

## (b) Particulars of Directors' other interests

As at the Latest Practicable Date, no Director had a services contract with any member of the Group which is not determinable by the Company within one year without payment other than statutory compensation.

## (c) Save as disclosed above, as at the Latest Practicable Date:

- (i) none of the Directors and chief executive held any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of the SFO) notifiable to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules, to be notified to the Company and the Stock Exchange;
- (ii) none of the Directors, Somerley, RHL Appraisal Limited and Castle of Antiquities Co. Ltd. had any direct or indirect interest in any assets which have been, since the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by, or leased to the Company or any of its subsidiaries, or are proposed to be acquired or disposed of by, or leased to, the Company or any of its subsidiaries;

- (iii) none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date and which is significant in relation to the business of the Group; and
- (iv) none of the Directors had entered or has proposing to enter into a service contract with the Company or any of its subsidiaries (excluding contracts expiring or determinable within one year without payment of compensation other than statutory compensation).

### 3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as known to the Directors, the following persons (other than a Director or chief executive of the Company) had an interest or short position in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholders	Number of Shares	Approximate % of the issued share capital as at the Latest Practicable Date
Batimate Limited ( <i>Note</i> )	604,263,167	52.578%
AIHL ( <i>Note</i> )	257,623,635	22.416%
Applied Electronics Limited ( <i>Note</i> )	1,118	0.0001%

*Note:* Batimate Limited and Applied Electronics Limited are both wholly-owned subsidiaries of AIHL. AIHL 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 Mr Hung Kin Sang, Raymond and Mrs Hung Wong Kar Gee, Mimi, both of whom are Directors, and their family members.

As at the Latest Practicable Date, so far as is known to the Directors and the chief executive of the Company, the following persons (other than a Director or chief executive of the Company) are directly or indirectly, beneficially interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group:

<b>Name of subsidiaries of the Company</b>	<b>Name of substantial shareholders</b>	<b>Approximate % of the issued share capital as at the Latest Practicable Date</b>
Sharp Win (Holdings) Limited	Ricky Hung Kin Nam	48.9%
Sharp Win Industrial Limited	Ricky Hung Kin Nam	19.96%

Saved as disclosed above, so far as was known to the Directors, there is no other person (other than the Directors or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, beneficially interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group.

#### **4. LITIGATION**

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

#### **5. MATERIAL CHANGE**

The Directors are not aware of any material change in the financial or trading position or prospects of the Group since 30 June 2003, the date to which the latest published audited consolidated accounts of the Company were made up.

**6. MATERIAL CONTRACTS**

In the two years immediately preceding the date of the Announcement and ending on the Latest Practicable Date, the following contracts, not being contracts entered into in the ordinary course of business, were entered into by the Company or its subsidiaries and are or may be material:

- (a) a sale and purchase agreement dated 28 December 2001 entered into between Applied Technology Limited (a wholly-owned subsidiary of the Company) and Wider World Investment Limited in connection with the sale by Applied Technology Limited and the purchase by Wider World Investment Limited of the property located at 46th Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong for a consideration of HK\$68 million;
- (b) the underwriting agreement dated 26 February 2002 entered into between the Company, Batimate Limited, AIHL and Applied Electronics Limited in relation to the underwriting and certain other arrangements in respect of the rights issue of the Company of not less than 574,630,910 Shares (each a “Rights Share”) at a price of HK\$0.083 per Rights Share for an underwriting commission of an amount equal to 2 per cent. of the total subscription price of such number of the Rights Shares for which Batimate Limited, AIHL and Applied Electronics Limited has agreed to subscribe or procure subscribers to subscribe; and
- (c) the Disposal Agreement.

**7. QUALIFICATION AND CONSENT OF EXPERT**

Each of Somerley, RHL Appraisal Limited and Castle of Antiquities Co. Ltd. has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and reference to its name in the form and context in which they appear.



The qualifications of the experts who have provided advice contained in this circular are as follows:

<b>Name</b>	<b>Qualification</b>
Somerley	a licenced corporation under the SFO to undertake type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management registered activities)
RHL Appraisal Limited	professional property valuation firm
Castle of Antiquities Co. Ltd.	a company which is principally engaged in the antique business. Mr Lee Man Shing, managing director of Castle of Antiquities Co. Ltd., has been involved in the antique business since 1980 and is the consultant to TT Tsui Museums around the world in London, Chicago, Toronto, Shanghai, Singapore and Hong Kong; and its customers include the top 10 international dealers to world-class museums

None of Somerley, RHL Appraisal Limited and Castle of Antiquities Co. Ltd. is interested in any Shares or Warrants or shares in any member of the Group nor do they have any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any Shares or Warrants or shares in any member of the Group.

Castle of Antiquities Co. Ltd. is independent of and not connected with the Company or the directors, chief executives or substantial shareholders of the Company or its subsidiaries or their respective associates.

## **8. MISCELLANEOUS**

- (a) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.
- (b) The head office and principal place of business of the Company in Hong Kong is at Rooms 4103–05, 41st Floor, Far East Finance Centre, 16 Harcourt Road, Central, Hong Kong.

- (c) The secretary of the Company is Lam Che Wah, Danny, *ACS, ACIS* (associate member of The Hong Kong Institute of Company Secretaries and associate member of The Institute of Chartered Secretaries and Administrators).
- (d) The branch share registrar and transfer office of the Company in Hong Kong is Progressive Registration Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (e) The English text of this circular shall prevail over the Chinese text in the case of inconsistency.

## 9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company, at Rooms 4103-05, 41st Floor, Far East Finance Centre, 16 Harcourt Road, Central, Hong Kong during normal business hours on any weekday (public holidays excepted) up to and including 4 February 2004:

- (i) the material contracts as referred to in the section headed “Material contracts” in this Appendix;
- (ii) the audited consolidated accounts of the Group for the two financial years ended 30 June 2003;
- (iii) the interim report of the Company for the six months ended 31 December 2002;
- (iv) the memorandum of association and bye-laws of the Company;
- (v) the letter from Somerley, the text of which set out on pages 14 to 23 of this circular;
- (vi) the written consents referred to in the section headed “Consents” in this Appendix;
- (vii) the letter and valuation certificates from RHL Appraisal Limited, the texts of which are set out in Appendix I of this circular; and
- (viii) the letter and valuation certificates from Castle of Antiquities Co. Ltd., the texts of which are set out in Appendix II of this circular.

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## NOTICE OF THE SGM

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### APPLIED (CHINA) LIMITED

*(incorporated in Bermuda with limited liability)*

**NOTICE IS HEREBY GIVEN** that a special general meeting of the shareholders of Applied (China) Limited (the “Company”) will be held at The Kam Shan Room, The American Club, 49th Floor, Two Exchange Square, 8 Connaught Place, Hong Kong on 4 February 2004 at 9:30 a.m. for the purpose of considering and, if thought fit, passing, the following as a special resolution (resolution no. 1) and an ordinary resolution (resolution no. 2) of the Company:

#### SPECIAL RESOLUTION

- (1) **“THAT** subject to (i) the approval by the Registrar of Companies in Bermuda and (ii) completion of the sale and purchase of the Sale and Purchase Deed (as defined in the circular of the Company dated 12 January 2004, a copy of which is produced to this meeting and marked “A” and initialled by the Chairman of this meeting for the purpose of identification),
- (a) the name of the Company be changed to MACRO-LINK International Holdings Limited;
  - (b) upon the change of the Company’s English name as referred to in (a) above becoming effective, “新華聯國際控股有限公司” be adopted as the Chinese name of the Company for the purpose of identification; and
  - (c) any one director of the Company be authorised to do or procure any such acts and things as may be required to effect the said changes of name of the Company.”

#### ORDINARY RESOLUTION

- (2) **“THAT:**
- (a) the conditional agreement dated 1 December 2003 (the “**Disposal Agreement**”) entered into between the Company and Applied International Holdings Limited in relation to, among other things, the sale and purchase of the entire issued share capital of iQuorum Cybernet Limited (a copy of which is tabled at the meeting and marked “B” and initialled by the chairman of the meeting for identification purposes) be and is hereby approved, ratified and confirmed; and

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## NOTICE OF THE SGM

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- (b) any one director of the Company, or any two directors of the Company if the affixation of the common seal is necessary, be and is/are hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in connection with the matters contemplated in the Disposal Agreement as he/she may consider necessary, desirable or expedient.”

By Order of the Board  
**Applied (China) Limited**  
**Hung Wong Kar Gee, Mimi**  
*Chairman*

12 January 2004

*Head office and principal place of business in Hong Kong:*

Rooms 4103–5

41st Floor

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 instrument appointing a proxy shall be in writing under the hand 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, attorney or other person authorised to sign the same.
3. Any member entitled to attend and vote at the meeting is entitled to appoint another person as his/her proxy to attend and vote instead of him/her. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf. 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 office of the Company's share registrars, Progressive Registration Limited, of Ground Floor, Bank of East Asia, Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting thereof (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 thereof (as the case may be) should they so wish, and in such event, the form of proxy shall be deemed to be revoked.

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## NOTICE OF THE SGM

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6. Where there are joint registered holders of any Share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she was solely entitled thereto, but if more than one of such joint holders are present at the meeting, whether in person or by proxy, the joint registered holder present whose name stands first on the register of members in respect of the shares shall be accepted to the exclusion of the votes of the other registered holders. For this purpose, seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
7. The ordinary resolution shall be voted by way of poll by the Independent Shareholders. Applied International Holdings Limited and its associates (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) and parties acting or presumed to be acting in concert with it (as defined in the Hong Kong Code on Takeovers and Mergers) will abstain from voting in relation to the ordinary resolution.