



APPLIED INTERNATIONAL HOLDINGS LIMITED

實力國際集團有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 519)

MEMORANDUM OF AGREEMENT FOR PROPOSED INVESTMENT AND DEVELOPMENT OF BEEF ISLAND, BRITISH VIRGIN ISLANDS

This announcement is made pursuant to Rule 13.09 of the Listing Rules.

Reference is made to the announcements issued by the Company dated 27 October 2004, 6 April 2005, 19 April 2005, 20 April 2005, 6 December 2005 and 22 March 2006 regarding, amongst other things, the discussion with independent parties in relation to the development of the Site which is owned by Quorum. The Directors are pleased to announce that the Company has entered into the MOA with Interlink and IGY on 20 May 2006 in respect of the proposed investment and development of the Site.

The proposed transaction may or may not proceed. Shareholders and potential investors should exercise caution when dealing in the shares of the Company.

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MEMORANDUM OF AGREEMENT

Under the MOA, the parties set out their intention to:–

- (i) enter into a joint venture arrangement regarding the development of the Site and pursuant to which the Company, Interlink and IGY will hold 50%, 25% and 25% interest in Quorum respectively;
- (ii) develop by Development Co, on behalf of Quorum, the Site in phases into a luxury resort, with a luxury hotel (or condo-hotel), 18 hole championship golf course, villas and condominium apartments, high-end retail commercial area and a marina; and
- (iii) enter into a management agreement with Development Co pursuant to which Development Co will act as manager for the project;

Under the terms of the MOA, subject to formal contract and the obtaining of the term loan mentioned below, (i) Quorum will redeem 50% of the equity held by Applied for a consideration of US\$30 million in cash and (ii) each of Interlink and IGY will subscribe 25% interest in Quorum for a consideration of

US\$5.5 million and each of them are obliged to fund up to US\$5 million of additional cash for the development of the Site by way of a promissory note. Quorum shall use part of a term loan in the sum of US\$51 million to be solely secured by a first priority mortgage lien on the Site and arranged by Interlink and IGY by 25 June 2006 to redeem the aforesaid interest of Applied in Quorum. After the disbursement of the term loan and the investments mentioned above, Quorum will have US\$21 million cash remaining from the term loan, cash of US\$11 million from Interlink and IGY as subscription monies and an obligation to fund up to US\$5 million from each of Interlink and IGY. Upon the consummation of the initial investment in Quorum by Applied, Interlink and IGY, the board of directors of Quorum will consist of 4 directors, 2 to be appointed by Applied and 1 by each of Interlink and IGY. In respect of the development of the Site, the board of directors of Quorum will have the authority to approve the Master Plan, budgets in excess of agreed amount and certain reserved matters.

Under the MOA, the Site will be developed and managed by Development Co, which is a new entity to be formed by Interlink and IGY. Certain material decisions of Development Co will have to be referred to the board of Quorum for determination. Details of the operation of Development Co will be set out in its articles of association and shareholders agreement. The hotel will be managed by a premier hotel management firm to be approved by the board of directors of Development Co. Development Co will develop the Site in accordance with the development agreement entered into between Quorum and the government of the British Virgin Islands, the approved Master Plan detailed construction drawings approved by relevant authorities. The development will be financed in accordance with the agreement amongst the parties and a budget approved by Development Co which, if in excess of the amount agreed by the parties, will be subject to approval by the board of directors of Quorum.

Under the MOA, Applied has granted to IGY and Interlink an exclusivity period through 25 June 2006 to conduct due diligence and prepare transaction documentation. During such period, Applied will not conduct negotiations or enter into arrangements with other parties in respect of the development of the Site. The MOA sets out the general terms upon which the parties intend to develop and operate the project and are subject to, amongst other things, the execution of final agreements between the parties. The entering into of the final agreements may constitute a notifiable transaction of the Company under the Listing Rules and in such event, further announcement will be made by the Company in compliance with the Listing Rules.

The proposed transaction may or may not proceed. Shareholders and potential investors should exercise caution when dealing in the shares of the Company.

PROJECT FINANCE

The Directors are also pleased to announce that Quorum has received a proposal from a leading international bank for a term loan financing in the sum of approximately US\$350 million with no corporate guarantee by the Company to fund the project. The loan is proposed to be funded in two tranches: (i) US\$200 million of a 5-year 1st lien term loan and (ii) US\$150 million of a 6-year 2nd lien term loan. The Company is considering the terms of the proposal and no agreement has yet been entered into between the parties.

INFORMATION ON INTERLINK AND IGY

Interlink

Interlink is an international leading residential and commercial developer worldwide. With more than 25 years of experience, Interlink has developed over 2,000 homes from Farmers Home and FHA to high-end suburban single-family and beachfront condominiums. Interlink has evolved into one of the most respected and financially sound development companies in the Caribbean.

Signature projects of Interlink includes Paseos, the first master-planned residential community in Puerto Rico; Las Casitas Village at El Conquistador Resort & Country Club, the only A.A.A. Five Diamond hotel in the Caribbean; Centro Europa, the award winning urban renewal, mixed-use complex in Santurce; the renovation works at Hotel El Convento in Old San Juan and El San Juan Hotel & Casino in Isla Verde; the turn-key development and leasing of City View Plaza in Guaynabo; and residential projects like Carrión Court Playa, Palmas Plantation, Paseo del Parque, Paseo Las Brisas and Dorado Reef have been recognized as standards of excellence in the industry and landmarks in their communities.

IGY

IGY is the premier developer and manager of luxury marina facilities. IGY focuses on designing, developing, acquiring, and controlling mega-yacht and other luxury-class marina facilities in key yachting and nautical tourism areas around the world. Headquartered in New York, IGY also has offices in Ft. Lauderdale, Florida, Greenville, South Carolina, St. Thomas, US Virgin Islands, St. Maarten, Netherlands Antilles, and Dubai, UAE. IGY's flagship development is Yacht Haven Grande, a US\$175 million mega-yacht marina and mixed-use facility located in St. Thomas, United States Virgin Islands, and scheduled to open in September 2006.

IGY is a controlled affiliate of Island Capital Group LLC ("ICG"), a real estate merchant bank headquartered in New York. ICG holds a portfolio of interests in real estate investment properties and securities with market capitalization of more than US\$20 billion. The current portfolio includes 230 Park Avenue in New York, 260 Park Avenue South in New York and (under purchase contract) 450 Lexington Avenue in New York. ICG has recently sold interests in more than US\$8 billion of investment properties located throughout the United States. ICG was founded in 2003 by Andrew L. Farkas, who was previously Chairman and Chief Executive Officer of Insignia Financial Group, Inc. (NYSE: IFS), a global real estate services company that was merged with CB Richard Ellis in July 2003 to form the world's largest commercial real estate services company. During the period from its founding with US\$5 million of equity in 1990 through its merger in 2003, Mr. Farkas grew Insignia into the largest owner and operator of multifamily real estate and among the largest owners and operators of commercial space in the United States, controlling or managing approximately 350,000 residential units and over 200 million square feet of commercial space.

Both Interlink and IGY are Independent Third Parties.

DEFINITIONS

In this announcement, unless the context requires otherwise, the following terms have the meanings set out below:—

"Board"	the board of Directors of the Company;
"Company"	Applied International Holdings Limited ("Applied"), a company incorporated in Bermuda and the shares of which are listed on the Stock Exchange;
"Directors"	the directors of the Company;
"Development Co"	a new entity to be formed by Interlink and IGY;
"Group"	the Company and its subsidiaries;

“Hong Kong”	The Hong Kong Special Administrative Region of the People’s Republic of China;
“Independent Third Party”	a person who, to the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, is independent of the Company and its subsidiaries, their directors, chief executives and substantial shareholders or their respective associates (as that term is defined in the Listing Rules) and who is not a connected person of the Company (as that term is defined in the Listing Rules);
“Interlink”	Interlink Realty International, Corp., a company incorporated in Puerto Rico and an Independent Third Party;
“IGY”	Island Global Yachting Acquisitions LLC, a company incorporated in United States and an Independent Third Party;
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange;
“MOA”	the memorandum of agreement entered into amongst the Company, Quorum, IGY and Interlink dated 20 May 2006;
“Quorum”	Quorum Island (BVI) Limited, a company incorporated in the British Virgin Islands and a wholly owned subsidiary of the Company;
“Site”	a site of approximately 663 acres located at Beef Island, Tortola, the British Virgin Islands;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited; and
“US\$”	US dollars, the lawful currency of the US.

By order of the board
Applied International Holdings Limited
Fang Chin Ping
Executive Director

Hong Kong, 24 May 2006

As at the date of this announcement, the executive Directors are Mr. Hung Kin Sang, Raymond, Ms. Hung Wong Kar Gee, Mimi, Mr. Fang Chin Ping and Mr. Hung Kai Mau, Marcus and the independent non-executive Directors are Mr. Soo Hung Leung, Lincoln, Mr. Lo Yun Tai, Mr. Lun Tsan Kau and Mr. Lam Ka Wai, Graham.

* *For identification only*

“Please also refer to the published version of this announcement in the South China Morning Post and China Daily”