
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

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**APPLIED INTERNATIONAL HOLDINGS LIMITED****實力國際集團有限公司****(incorporated in Bermuda with limited liability)***(Stock Code: 519)****GRANT OF OPTIONS TO A DIRECTOR**

A notice convening the SGM (as defined herein) of Applied International Holdings Limited to be held on 7 June 2006 at 10:20 a.m. at Chater Room III, Function Room Level, The Ritz-Carlton, 3 Connaught Road, Central, Hong Kong is set out on pages 7 to 8 of this circular. Whether or not you are able to attend the SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's principal place of business at Unit 3402, 34/F, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the SGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

* *For identification purpose only*

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DEFINITIONS

In this circular, the following expressions have the following meanings unless the context requires otherwise:

“Board”	the board of Directors;
“Company”	Applied International Holdings Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on the Stock Exchange;
“Directors”	the directors of the Company;
“HK\$”	Hong Kong dollars;
“Independent Shareholders”	Shareholders other than the connected persons (as defined in the Listing Rules) of the Company including Mr. Hung and his associates;
“iQuorum”	iQuorum Cybernet Limited, a company incorporated in Hong Kong, which is a wholly-owned subsidiary of the Company;
“Latest Practicable Date”	19 May 2006, being the latest practicable date prior to the printing of this circular for ascertaining information contained herein;
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange;
“Mr. Hung”	Mr. Hung Kin Sang, Raymond, an executive Director and a substantial Shareholder;
“SGM”	the special general meeting of the Company to be convened to approve the grant of share options to Mr. Hung;
“Share Option Scheme”	the share option scheme adopted by the Company on 16 September 2002 and expiring on 15 September 2012;
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company;
“Shareholder(s)”	holder(s) of the Share(s); and
“Stock Exchange”	The Stock Exchange of Hong Kong Limited.

LETTER FROM THE BOARD



APPLIED INTERNATIONAL HOLDINGS LIMITED

實力國際集團有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 519)

Executive Directors

Mr. Hung Kin Sang, Raymond
Ms. Hung Wong Kar Gee, Mimi
Mr. Fang Chin Ping
Mr. Hung Kai Mau, Marcus

Registered Office

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

Independent Non-executive Directors

Mr. Soo Hung Leung, Lincoln
Mr. Lo Yun Tai
Mr. Lun Tsan Kau
Mr. Lam Ka Wai, Graham

Head Office and

Principal Place of Business:

Unit 3402, 34/F
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

19 May 2006

To the Shareholders

Dear Sir/Madam,

GRANT OF OPTIONS TO A DIRECTOR

INTRODUCTION

Share Option Scheme

On 16 September 2002, the Company adopted the Share Option Scheme for the primary purpose of providing incentives to Directors and eligible employees. The Share Option Scheme will expire on 15 September 2012. Under the Share Option Scheme, the Board may grant options to eligible employees, including executive directors of the Company and its subsidiaries, to subscribe for Shares.

The total number of Shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of the Company shall not exceed 10% of the Shares in issue as at the date of adoption of the Share Option Scheme. The number of Shares in respect of which options may be granted to a specifically identified single grantee under the Share Option Scheme and any other share option schemes of the Company shall not in any 12 month period exceed 1% of the shares of the Company in issue.

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LETTER FROM THE BOARD

No option has been granted under the Share Option Scheme since it has been adopted. Details of the Share Option Scheme were set out in the Company's circular dated 28 August 2002.

Proposed granted of options to a Director

The Board proposed in the board meeting held on 25 April 2006 to grant options to subscribe for Shares representing 5% of the issued share capital of the Company (the "Option") to Mr. Hung. Mr. Hung is an executive Director and a substantial Shareholder interested in 443,264,584 Shares as at the Latest Practicable Date, representing 48.49% shareholding of the Company through (i) a discretionary trust in which Mr. Hung is one of the beneficiaries of the trust (ii) an indirect interests in iQuorum, a wholly owned subsidiary of the Company and (iii) Shares held by himself.

Number of Shares which may be issued under the Option

As at the Latest Practicable Date, there were in issue an aggregate of 914,202,826 Shares. Assuming no further Shares are issued prior to the date of the SGM, a total of 45,710,141 Shares may be issued under the Option, representing 5 per cent. of the issued share capital of the Company as at the date of the SGM.

Pursuant to Note (2) to Rule 17.03(3) of the Listing Rules, the limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes must not exceed 30 per cent. of the issued share capital from time to time. The Directors confirmed that the grant of the Option will not result in this 30 per cent. limit being exceeded.

Reasons for the grant of the Option

Mr. Hung is an executive Director of the Company who is primarily responsible for overall management activities of the Company including business strategy planning and business development with particular emphasis on the development of the project in the British Virgin Islands. The Option proposed to be granted to him will serve as an incentive for his continuing commitment and contribution to the Group in the future.

Conditions of the Option

The Option is conditional on the passing of an ordinary resolution by the Independent Shareholders at the SGM to approve the grant of the Option and to authorise the directors to allot and issue Shares pursuant to the exercise of the Option.

LETTER FROM THE BOARD

Principal terms of the Option

The principal terms of the Option are as follows:

Grantor:	The Company
Grantee:	Mr. Hung Kin Sang, Raymond
Date of Grant:	25 April 2006 (“Date of Grant”)
Exercise Period:	The Shares under the Option must be taken up within 5 years from the grant of the Option. There is no minimum period for the Option to be held before it can be exercised.
Performance Target:	The Option does not specify a performance target which must be achieved before it can be exercised.
Payment on acceptance of the Option:	The Option must be taken within 30 days from the Date of Grant. Mr. Hung shall remit HK\$1.00 in favour of the Company upon acceptance of the grant of the Option.
Exercise Price:	HK\$0.54 per Share, being the higher of (i) the closing price of the Shares on the Date of Grant and (ii) the average closing price of the Shares for the 5 business days immediately before the Date of Grant. The closing price of the Shares on the Date of Grant and 5 days preceding it are as follows:

Date	Closing Price
18 April 2006	HK\$0.445
19 April 2006	HK\$0.445
20 April 2006	HK\$0.455
21 April 2006	HK\$0.560
24 April 2006	HK\$0.590
25 April 2006	HK\$0.540

Ranking of Shares:	Shares allotted on the exercise of the Option will rank pari passu with the other Shares in issue at the relevant date of allotment except in respect of any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor is before the relevant date of allotment.
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LETTER FROM THE BOARD

Shareholders' approval for the Option

Pursuant to Rules 17.03(4) and 17.04(1) of the Listing Rules,

- (1) where any further grant of options to a participant would result in the securities issued and to be issued upon exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the relevant class of securities in issue, such further grant must be separately approved by Shareholders in general meeting with such participant and his associates abstaining from voting;
- (2) each grant of options to a Director, chief executive or substantial shareholder of a listed issuer under the Share Option Scheme must be approved by independent non-executive Directors (excluding independent non-executive Director who is the grantee of the options); and
- (3) where any grant of options to a substantial Shareholder would result in the securities issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:–
 - (a) representing in aggregate over 0.1% of the relevant class of securities in issue; and
 - (b) (where securities are listed on the Stock Exchange), having an aggregate value based on the closing price of the securities at the date of each grant, in excess of HK\$5 million,

such further grant of options must be approved by Shareholders.

Therefore, the Option will be subject to approval of the Independent Shareholders at the SGM. All connected persons of the Company including Mr. Hung and his associates shall abstain from voting in favour at the SGM.

Voting by poll

Pursuant to rules 17.04(2) and 13.39(4) of the Listing Rules, the vote taken at the SGM to approve the grant of the Option must be taken on a poll.

Procedures for demanding a poll

Pursuant to bye-law 66 of the bye-laws of the Company, a resolution put to the vote of a meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands) demanded by: (i) the chairman of such meeting; or (ii) at least three members present in person or by proxy or by representative for the time being entitled

LETTER FROM THE BOARD

to vote at the meeting; or (iii) a member or members present in person or by proxy or by representative and representing not less than one-tenth of the total voting rights of all members having the right to vote at the meeting; or (iv) by a member or members present in person or by proxy or by representative and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

SGM notice & proxy form

A notice convening the SGM to be held on 7 June 2006 at 10:20 a.m. at Chater Room III, Function Room Level, The Ritz-Carlton, 3 Connaught Road, Central, Hong Kong is set out on pages 7 to 8 of this circular for the purpose of considering and, if thought fit, passing with or without amendments the ordinary resolution set out therein.

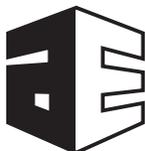
A form of proxy for use at the SGM is enclosed. Whether or not you are able to attend the SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's principal place of business at Unit 3402, 34/F, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the SGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

RECOMMENDATION

The independent non-executive Directors of the Company have reviewed the Share Option Scheme and the proposed terms of the Option and consider that the proposed terms of the Option are fair and reasonable and the Option is granted with a view to motivating and retaining high performing individuals and promoting the enhancement of the value of its Shareholders. Accordingly, the independent non-executive Directors recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the grant of the Option.

By Order of the Board
Applied International Holdings Limited
Fang Chin Ping
Executive Director

NOTICE OF SPECIAL GENERAL MEETING



APPLIED INTERNATIONAL HOLDINGS LIMITED

實力國際集團有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 519)

NOTICE IS HEREBY GIVEN that a special general meeting (the “SGM”) of Applied International Holdings Limited (the “Company”) will be held at Chater Room III, Function Room Level, The Ritz-Carlton, 3 Connaught Road, Central, Hong Kong at 10:20 a.m. on 7 June 2006 for the purpose of considering and, if thought fit, passing with or without amendment the following resolution which will be proposed as an ordinary resolution:

ORDINARY RESOLUTION

“**THAT:**

- (i) the grant of options to subscribe for shares representing 5% of the Company’s issued share capital (the “Option”) to Mr. Hung Kin Sang, Raymond and the terms of the Option as set out in the Company’s circular dated 19 May 2006 be confirmed and approved; and
- (ii) the Board be and is hereby authorised, to grant the Option and to allot and issue shares of the Company pursuant to the exercise of such Option.”

By Order of the Board
Applied International Holdings Limited
Fang Chin Ping
Executive Director

Dated 19 May 2006

Notes:

- 1. Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person as his proxy to attend and vote instead of him. On a poll, votes may be given either personally or by proxy. A proxy need not be a member of the Company. A member may appoint more than one proxy to attend on the same occasion.
- 2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney authorised in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised.
- 3. A form of proxy for use at the meeting is enclosed.

* *For identification purpose only*

NOTICE OF SPECIAL GENERAL MEETING

4. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof shall be deposited at the principal place of business of the Company at Unit 3402, 34/F, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong not less than 48 hours before the time for holding the meeting or adjourned meeting or poll (as the case may be) at which the person named in such instrument proposes to vote and in default the instrument of proxy shall not be treated as valid.
5. No instrument appointing a proxy shall be valid after expiration of twelve months from the date of its execution, except at an adjourned meeting or on a poll demanded at a meeting or an adjourned meeting in cases where the meeting was originally held within twelve months from such date.
6. Delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the meeting or poll concerned.