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V.S. International Group Limited

威 鉞 國 際 集 團 有 限 公 司

(incorporated in the Cayman Islands with limited liability)

(stock code: 1002)

CONTINUING CONNECTED TRANSACTIONS

On 7 June 2007, VSA(HK), a non-wholly owned subsidiary of the Company, entered into a New Licence Agreement with Andes for provision of SMT Technologies and related technical know-how and assistance.

As at the date of this announcement, Andes is interested in 19% of the entire issued share capital of VSA(HK), a non-wholly owned subsidiary of the Company. Given that Andes is a substantial shareholder of a subsidiary of the Company, it is a connected person of the Company under the Listing Rules. Therefore, the provision of SMT Technologies and related technical know-how and assistance by Andes to VSA(HK) and VSA(ZH) under the New Licence Agreement constitutes Continuing Connected Transactions for the Company under Chapter 14A of the Listing Rules.

Since the expected annual consideration payable by VSA(HK) to Andes during the term of the New Licence Agreement represents less than 2.5% of each of the applicable percentage ratios under the Listing Rules, the New Licence Agreement is only subject to the reporting, announcement and annual review requirements set out in Rules 14A.45 to 14A.47 and Rules 14A.37 to 14A.40 of the Listing Rules and are exempt from independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company will be required to comply with the requirements of Rules 14A.35(3) and (4) of the Listing Rules if any of the annual caps in respect of the new Licence Agreement is exceeded or when the New Licence Agreement is renewed or there is a material change to the terms of the New Licence Agreement.

NEW LICENCE AGREEMENT

Date: 7 June 2007

Parties: (1) Andes as technology provider and licensor
(2) VSA(HK) as technology licensee

Term: From 7 June 2007 to 31 July 2009

Provision of SMT Technologies and related technical know-how and assistance

Under the New Licence Agreement, Andes shall provide and grant to VSA(HK) (with full power to sub-licence to VSA(ZH)) a non-exclusive licence to use the SMT Technologies and/or the related know-how, experience, data and all other technical or commercial information for the manufacturing of the Products and/or the operation of the SMT Technologies. Andes shall also provide VSA(HK) and/or VSA(ZH) with such technological support and assistance, such as provision of qualified engineers, training and/or seminars to the staff of VSA(HK) and/or VSA(ZH), for the effective and efficient manufacturing of the Products and the smooth operation of the SMT Technologies.

Technical fees for Assigned Personnel

In consideration of the technical assistance and services to be rendered by Andes under the New Licence Agreement, VSA(HK) is responsible for payment of technical fees for Assigned Personnel. The amount and payment terms shall be agreed upon separately by Andes and VSA(HK), provided that the basis of technical fees for the Assigned Personnel shall be reviewed annually. In addition, Andes and VSA(HK) shall also review annually the number and qualification of Assigned Personnel required for the purposes of the New Licence Agreement.

VSA(ZH) shall reimburse the Assigned Personnel all living costs, which are required for the Assigned Personnel to live in the PRC on an actual cost basis (such as accommodation, meals, utility, telecommunication, round trip and transportation consumed in the PRC) provided that the maximum amount of such expenses for each Assigned Personnel per calendar month shall not exceed US\$1,500.

Andes shall also assign its staff to stay at VSA(HK) and/or VSA(ZH) temporarily to assist the operation according to the written request of VSA(HK).

Andes shall be responsible for making available suitably qualified staff and/or engineer(s) to attend with other party(ies) all technical meeting(s) held in Japan or elsewhere on behalf of VSA(HK) and/or VSA(ZH) when VSA(HK) gives written requests to Andes to do so in advance and upon the approval of Andes provided that such approval shall not be unreasonably withheld. VSA(HK) shall pay Andes all reasonable expenses of actual travel and accommodation fees against valid receipt(s) and/or other payment evidence satisfactory to VSA(HK).

Royalty

In consideration of the technical transfer, assistance and services to be rendered by Andes pursuant to the New Licence Agreement, VSA(HK) shall pay to Andes a royalty (the “**Royalty**”) to be charged on every Product sold by VSA(ZH) which will be calculated by a formula with reference to the aggregate line assembly cost and cost for processes involving the use of automatic insertion technology and/or SMT Technologies (“**AI/SMT cost**”) the quantity of the Product sold.

It is further provided under the New Licence Agreement that, for the purposes of calculating the line assembly cost and the AI/SMT cost, Andes and VSA(HK) shall, in respect of each quotation given by VSA(ZH) and confirmed by the relevant customer, negotiate in good faith whether any item(s) should be included or excluded for the purpose of such calculation. In the event that Andes and VSA(HK) fail to agree which item(s) is/are to be included or excluded for such purpose, the line assembly cost and the AI/SMT cost as set out in the quotation shall be used for calculating the line assembly cost and the AI/SMT cost.

The Royalty shall be payable with effect from 7 June 2007 until 31 July 2008 subject to the early termination of the New Licence Agreement. Andes and VSA(HK) agreed that the amount of the Royalty shall be further reviewed by the parties after 31 July 2008 with reference to the then current SMT Technologies and related information provided in accordance with the New Licence Agreement.

Payment term

The Royalty, the technical fees for Assigned Personnel, services fees for temporary seconded staff assigned by Andes to assist the operation of VSA(HK) and/or VSA(ZH) and technical support fees in relation to the provision of suitably qualified staff and/or engineer(s) by Andes to attend technical meeting(s) held in Japan or elsewhere on behalf of VSA(HK) and/or VSA(ZH) shall be payable by VSA(HK) within 45 days after the receipt of the relevant invoice, which shall be issued by Andes at the end of every month. The amount and the payment terms for the temporary secondment of staff from Andes to VSA(HK) and/or VSA(ZH) at the request of VSA(HK) shall be agreed among the parties separately on a case-by-case basis.

MAXIMUM AGGREGATE ANNUAL VALUE

Pursuant to the agreement entered into between Andes and VSA(HK) dated 28 January 2003 (“**Previous Agreement**”) which terms are substantially the same with that of the New Licence Agreement and announced by the Company on 28 January 2003, Andes has been providing SMT Technologies and related technical know-how and assistance to VSA(HK) and VSA(ZH) since 2003. For each of the four financial years ended 31 July 2006 and the period from 1 August 2006 to 30 April 2007, the fees payable by VSA(HK) and VSA(ZH) under the Previous Agreement amounted to nil, HK\$482,242, HK\$728,719, HK\$665,457 and HK\$993,069 respectively. Given that the fees payable by VSA(HK) and VSA(ZH) to Andes for each of the four financial years ended 31 July 2006 and the period from 1 August 2006 to the date immediately before the date of the New Licence Agreement was less than HK\$1,000,000, the transaction contemplated under the Previous Agreement for the period from 28 January 2003 to 30 April 2007 was exempt from the reporting, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

The expected annual caps in respect of the New Licence Agreement for each of the three financial years ending 31 July 2009 during the three-year term of the New Licence Agreement are as follows:

Particulars	Year ending 31 July		
	2007	2008	2009
Total consideration payable by VSA(HK) and/or VSA(ZH) under the New Licence Agreement	HK\$2,463,069 (among which, HK\$993,069 was payable under the Previous Agreement in the financial year ending 31 July 2007 and HK\$1,470,000 is expected to be payable under the New Licence Agreement from the date of signing of the New Licence Agreement to 31 July 2007)	HK\$4,100,000	HK\$4,200,000

The aforesaid caps are determined by reference to the following consideration:

- the prevailing fees payable by VSA(HK) and VSA(ZH) under the Previous Agreement;
- the actual sales amount of the Products for the period from 1 August 2006 to 30 April 2007 as compared to the expected sales amount during the same period;

- (c) under the Previous Agreement, the technical fees for Assigned Personnel was paid by VSA(HK) to the Assigned Personnel while under the New Licence Agreement, such fees shall be payable by VSA(HK) to Andes;
- (d) during the period from 1 August 2006 to 31 December 2006, there was no technical fee payable under the Previous Agreement but it is expected there will be technical fees payable under the New Licence Agreement during the whole financial year of 2008 and 2009; and
- (e) there are currently three Assigned Personnel working for VSA(HK) and VSA(ZH), it is expected that there will be in total four Assigned Personnel working for VSA(HK) and VSA(ZH) for the two financial years ended 31 July 2009.

REASONS FOR THE CONTINUING CONNECTED TRANSACTIONS

The Group has been principally engaged in the manufacturing and sales of plastic moulded components and parts, assembly of electronic products and mould design and fabrication. Andes is one of the major developers of the SMT Technologies and has extensive experience in the manufacturing of printed circuit board assembly and its related electronics semi-finished and/or finished products using the SMT Technologies. Andes is one of the specialist in SMT technology and printed circuit board assembly and Andes is willing to provide the SMT technology to the Group at the agreed price which is reasonable in the market. VSA(HK) is desirous of obtaining technical know-how and technical assistance on the production of the Products. The provision of SMT Technologies and technical know-how by Andes to VSA(HK) and VSA(ZH) will, under the New Licence Agreement, continue to be conducted in the ordinary and usual course of business of the Group.

The Directors (including the independent non-executive Directors) consider that:

- (a) the terms and conditions of the New Licence Agreement were negotiated between the parties to it on an arm's length basis and are on normal commercial terms that are fair and reasonable;
- (b) the expected annual capped amounts of the fees payable under the New Licence Agreement for the three years ending 31 July 2009 as referred to above are fair and reasonable; and
- (c) the Continuing Connected Transactions are and will be conducted in the ordinary and usual course of business of VSA(HK) and VSA(ZH) and in the interest of the Company and its shareholders as a whole.

GENERAL INFORMATION

As at the date of this announcement, Andes is interested in 19% of the entire issued share capital of VSA(HK), a non-wholly owned subsidiary of the Company. Given that Andes is a substantial shareholder of a subsidiary of the Company, it is a connected person of the Company under the Listing Rules. Therefore, the provision of SMT Technologies and related technical know-how and assistance by Andes to VSA(HK) and VSA(ZH) under the New Licence Agreement constitutes Continuing Connected Transactions for the Company under Chapter 14A of the Listing Rules.

Since the expected annual consideration payable by VSA(HK) to Andes during the term of the New Licence Agreement represents less than 2.5% of each of the applicable percentage ratios under the Listing Rules, the New Licence Agreement is only subject to the reporting, announcement and annual review requirements set out in Rules 14A.45 to 14A.47 and Rules 14A.37 to 14A.40 of the Listing Rules and are exempt from independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company will be required to comply with the requirements of Rules 14A.35(3) and (4) of the Listing Rules if any of the annual caps in respect of the New Licence Agreement is exceeded or when the New Licence Agreement is renewed or there is a material change to the terms of the New Licence Agreement.

DEFINITIONS

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

“Andes”	Andes Electric Co., Ltd., a company incorporated in Japan
“Assigned Personnel”	means the person(s) assigned by Andes to work for VSA(HK) and/or VSA(ZH)
“Company”	V.S. International Group Limited, a company incorporated in the Cayman Islands with limited liability whose shares are listed on the Stock Exchange
“connected person”	has the meaning ascribed to it under the Listing Rules
“Continuing Connected Transactions”	the continuing connected transactions constituted by the provision of SMT Technologies and technical know-how by Andes to VSA(HK) and VSA(ZH) under the New Licence Agreement
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People's Republic of China
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

“New Licence Agreement”	the technical licence and assistance agreement dated 7 June 2007 and entered into between Andes and VSA(HK) for the provision by Andes to VSA(HK) and/or VSA(ZH) of the SMT Technologies for the manufacturing of the Products, and such other technological support and assistance in connection thereof
“PRC”	the People’s Republic of China
“Products”	printed circuit board and its related electronics semi-finished and/or finished products using the SMT Technologies
“SMT Technologies”	surface mounting technologies, a specialised manufacturing process used for the production of the Products
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US\$”	United States dollars, the lawful currency of the United States of America
“VSA(HK)”	VSA Holding Hong Kong Co., Limited (威士茂安商住控股香港有限公司), a company incorporated under the laws of Hong Kong and a non-wholly owned subsidiary of the Company, the issued share capital of which is owned as to 71% by VSIL, 19% by Andes and 10% by Sumitronics Hong Kong Ltd.
“VSA(ZH)”	威士茂安商住電子科技(珠海)有限公司(VSA Electronics Technology (Zhuhai) Co., Ltd.), a wholly foreign owned enterprise established in Zhuhai, the PRC jointly established by VSIL and VSA(HK)
“VSIL”	V.S. International Industry Limited, a company incorporated under the laws of British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
“%”	per cent.

LIST OF DIRECTORS AS AT THE DATE OF THIS ANNOUNCEMENT

Executive Directors:

Mr. Beh Kim Ling
 Mr. Gan Sem Yam
 Madam Gan Chu Cheng
 Mr. Zhang Pei Yu

Independent non-executive Directors:

Mr. Diong Tai Pew
 Mr. Cheung Kwan Hung, Anthony
 Mr. Tang Sim Cheow

Non-executive Director:

Mr. Gan Tiong Sia

By order of the board of Directors of
V.S. International Group Limited
Beh Kim Ling
Chairman

Zhuhai, the PRC, 7 June 2007

Please also refer to the published version of this announcement in The Standard.