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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)

DISCLOSEABLE TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS: TENANCY ARRANGEMENT

Reference is made to an announcement dated 2 August 2006 in relation to the Existing Lease Agreement. On 14 November 2006, VS Zhuhai, VSA (Zhuhai) and VSI (Zhuhai) (as tenants) entered into the VS Zhuhai Lease Agreement, the VSA (Zhuhai) Lease Agreement and the VSI (Zhuhai) Lease Agreement with VS Management (as landlord) respectively for leasing certain residential units comprising the Premises for a term of two years commencing from 1 August 2007. The Existing Lease Agreement remains in full force and effect.

Under the New Lease Agreements, it was agreed that VS Management would lease a total of 18 residential buildings comprising the Premises to the Tenants during the term of the New Lease Agreements.

Each of VS Zhuhai and VSI (Zhuhai) is a wholly-owned subsidiary of the Company while VSA (Zhuhai) is a non wholly-owned subsidiary of the Company. As at the date of this announcement, the entire issued share capital of VS Management is owned by Mr. Beh Kim Ling, an executive Director. Accordingly, VS Management is an associate of Mr. Beh Kim Ling and is therefore a connected person of the Company under the Listing Rules, and the tenancy arrangements as contemplated under the New Lease Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

It is currently expected that the aggregate rent and management fee payable by the Tenants under the New Lease Agreements for each of the two financial years ending 31 July 2009 will be more than HK\$10 million and the applicable percentage ratios (as prescribed under Chapter 14 of the Listing Rules) are more than 2.5%. Accordingly, the tenancy arrangements as contemplated under the New Lease Agreements for the two financial years ending 31 July 2009 will be subject to the reporting, announcement and Independent Shareholders' approval requirements as set out in Rules 14A.45 to 14A.54 of the Listing Rules.

As the applicable percentage ratio of the consideration test (as calculated in accordance with Rule 14.07 of the Listing Rules) for the tenancy arrangements as contemplated under the New Lease Agreements is more than 5% but less than 25%, the tenancy arrangements will also constitute a discloseable transaction of the Company under Chapter 14 of the Listing Rules and are subject to the notification and announcement requirements pursuant to Rule 14.33 of the Listing Rules.

A circular including, among other information, (1) a letter from the Board containing further details of the New Lease Agreements; (2) a letter from the independent Board committee setting out its recommendations in connection with the continuing connected transactions as contemplated under the New Lease Agreements and the related expected annual capped amounts to the Independent Shareholders; (3) a letter from Evolution Watterson Securities Limited as an independent financial adviser containing its advice in connection with the continuing connected transactions as contemplated under the New Lease Agreements and the related expected annual capped amounts to the independent Board committee and the Independent Shareholders; and (4) the notice of EGM, will be despatched to the Shareholders as

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NEW LEASE AGREEMENTS

Date: 14 November 2006

Parties:

- Tenants:
- (1) VS Zhuhai, a wholly-owned subsidiary of the Company, as tenant under the VS Zhuhai Lease Agreement;
 - (2) VSA (Zhuhai), a non wholly-owned subsidiary of the Company, as tenant under the VSA (Zhuhai) Lease Agreement;
 - (3) VSI (Zhuhai), a wholly-owned subsidiary of the Company, as tenant under the VSI (Zhuhai) Lease Agreement; and

Landlord: VS Management, a company wholly-owned by Mr. Beh Kim Ling, an executive Director, as landlord under each of the New Lease Agreements

Leased Premises:

The Premises is planned to be a residential complex which is to comprise 26 buildings and other facilities to be developed by VS Management. Up to the date of this announcement, 11 buildings out of the 26 buildings have been constructed. According to the construction schedule provided by VS Management, it is expected that the construction of additional 7 residential buildings will be completed by mid-2007.

Under the New Lease Agreements, it was agreed that VS Management would lease a total of 18 residential buildings comprising the Premises to the Tenants during the term of the New Lease Agreements.

Term:

Two years commencing from 1 August 2007.

Conditions of the New Lease Agreements:

Each of the New Lease Agreements is conditional upon the Company having fulfilled its obligations under the Listing Rules to make disclosures and to obtain shareholders' approval in respect of the tenancy arrangement thereunder.

Use:

The Leased Premises can only be used as the staff quarters for the respective Tenants. The Leased Premises shall not be leased to any other third party without the consent of the respective Tenants.

Rent and Management Fee:

As agreed under the New Lease Agreements, the rent and management fee per sq.m. per month are RMB18.00 (equivalent to approximately HK\$17.82) and RMB1.30 (equivalent to approximately HK\$1.29) respectively.

Under the New Lease Agreements, the annual aggregate amount of rent and management fee payable by each of the Tenants is payable by cash in advance by two equal installments. The payment date of the first installment for each financial year will fall on 15 August 2007 and 2008 respectively while the payment date of the second installment for each financial year will fall on 15 February 2008 and 2009 respectively.

It is agreed under the New Lease Agreements that in the event that the Fair Market Rent and Management Fee is lower than the amount of the unit rent and management fee as agreed under the New Lease Agreements, each of the Tenants will be entitled to request for adjustment to the amount of unit rent and management fee with effect from 1 August 2007 and/or 1 August 2008 for the amount payable for the following twelve-month period.

EXPECTED CAPPED AMOUNT OF RENT AND MANAGEMENT FEE PAYABLE

It is expected that the maximum leased area available for use by the Group pursuant to the New Lease Agreements will be approximately 68,176 sq.m. for each of the two financial years ending 31 July 2009. It is also expected that upon completion of its construction, the Leased Premises can accommodate approximately 7,600 staff of the Group.

Based on the above estimated availability of the Leased Premises and the unit rent and management fee per sq.m. of RMB18.00 and RMB1.30 per month respectively, the aggregate annual rent and management fee payable by the Tenants to VS Management is estimated to be approximately RMB16,000,000 (equivalent to approximately HK\$15,842,000) for each of the two financial years ending 31 July 2009.

To the best knowledge of the Directors, the rent and management fee per sq.m. as agreed under the New Lease Agreements were determined by reference to the fair market rent and management fee payable for premises with comparable facilities in Zhuhai as determined by Midland Surveyors (Macau) Ltd, a property valuer which, to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, is a third party independent of the Company and its connected persons and were adjusted after taking into account various factors, including but not limited to the location and age of the buildings as well as the facilities associated with the buildings.

The payment of rent and management fee will be funded by internal resources of the Group.

REASONS FOR THE TRANSACTION

The New Lease Agreements were entered into by each of the Tenants with VS Management respectively after arm's length negotiations. The Group has been leasing certain residential units comprising the Premises from VS Management since early 2004. The Directors believe that the proximity of the Leased Premises to the production facilities of the Tenants not only gives the employees great convenience but also can help to reduce the transportation costs currently incurred by the Group for arranging employees to come to work. In addition, the Directors consider that the Leased Premises can provide well-managed staff quarters for the Tenants.

The Directors anticipate that, with the growth of the business operations of VS Zhuhai particularly, in 2007, the aggregate number of staff to be employed by the Tenants is expected to increase up to approximately 7,600 for both financial years ending 31 July 2008 and 2009. As at the date of this announcement, the residential units available for lease from VS Management can only accommodate up to approximately 5,000 persons. With the completion of additional residential units, the Leased Premises will then provide adequate living space to accommodate all the employees of the Tenants. Furthermore, the Directors expect that there will be a shortage of suitable premises available elsewhere as accommodation for the staff of the Tenants. Thus, the Directors consider that it is essential to secure a longer contractual tenancy arrangement with VS Management.

The Directors also consider that by entering into the New Lease Agreements, the Group is able to cap the amount of rent and management fee payable, while allowing the flexibility to the Group to adjust the amount of rent and management fee payable in the event that the Fair Market Rent and Management Fee falls below the agreed amount under the New Lease Agreements.

The Directors are of the opinion that:

- (i) the terms (including the rent and management fee) of each of the New Lease Agreements are on normal commercial terms that are fair and reasonable;
- (ii) the expected annual capped amounts of the rent and management fee payable by the Tenants for the two financial years ending 31 July 2009 are fair and reasonable; and
- (iii) the continuing connected transactions constituted under the New Lease Agreements are and will be conducted in the ordinary and usual course of business of the Group and in the interests of the Company and its shareholders as a whole.

GENERAL

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. VS Zhuhai is a wholly-owned subsidiary of the Company and is principally engaged in the manufacturing, assembling and selling of plastic moulded products and electronic products, parts and components. VSA (Zhuhai) is a non wholly-owned subsidiary of the Company and is principally engaged in the assembling and selling of electronic products and parts. VSI (Zhuhai) is a wholly-owned subsidiary of the Company and is principally engaged in the manufacturing and selling of plastic moulded products and parts.

VS Management is principally engaged in property management activities. As at the date of this announcement, the entire issued share capital of VS Management is owned by Mr. Beh Kim Ling, an executive Director. Accordingly, VS Management is an associate of Mr. Beh Kim Ling and is therefore a connected person of the Company under the Listing Rules and the tenancy arrangements as contemplated under the New Lease Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

It is expected that the aggregate rent and management fee payable by the Tenants under the New Lease Agreements for each of the two financial years ending 31 July 2009 will be more than HK\$10 million and the applicable percentage ratios (as prescribed under Chapter 14 of the Listing Rules) are more than 2.5%. Accordingly, the tenancy arrangements as contemplated under the New Lease Agreements for the two financial years ending 31 July 2009 will be subject to the reporting, announcement and Independent Shareholders' approval requirements set out in Rule 14A.45 to 14A.54 of the Listing Rules.

As the applicable percentage ratio of the consideration test (as calculated in accordance with Rule 14.07 of the Listing Rules) for the tenancy arrangements as contemplated under the New Lease Agreements is more than 5% but less than 25%, the tenancy arrangements will also constitute a discloseable transaction of the Company under Chapter 14 of the Listing Rules and are subject to the notification and announcement requirements pursuant to Rule 14.33 of the Listing Rules.

A circular including, among other information, (1) a letter from the Board containing further details of the New Lease Agreements; (2) a letter from the independent Board committee setting out its recommendations in connection with the continuing connected transactions as contemplated under the New Lease Agreements and the related expected annual capped amounts to the Independent Shareholders; (3) a letter from Evolution Watterson Securities Limited as an independent financial adviser containing its advice in connection with the continuing connected transactions as contemplated under the New Lease Agreements and the related expected annual capped amounts to the independent Board committee and the Independent Shareholders; and (4) the notice of EGM, will be despatched to the Shareholders as soon as practicable.

DEFINITIONS

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

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| “associate(s)” | has the meaning as ascribed thereto under the Listing Rules |
| “Board” | the board of Directors |
| “Company” | VS. International Group Limited, a company incorporated in the Cayman Islands with limited liability whose shares are listed on the Stock Exchange |
| “Director(s)” | the director(s) of the Company |
| “EGM” | the extraordinary general meeting of the Company to be convened for approving each of the New Lease Agreements by the Independent Shareholders |
| “Existing Lease Agreement” | the lease agreement dated 2 August 2006 and entered into between VS Zhuhai as tenant and VS Management as landlord in relation to the lease of the Premises for a term of one year commencing from 1 August 2006 |
| “Fair Market Rent and Management Fee” | the fair market rent and management fee of comparable premises as determined by an independent property valuer which may be appointed by any of the Tenants on a record date falling not earlier than two months from 1 August 2007 (being the commencement date of the first year of the term of tenancy under the relevant New Lease Agreements) and/or 1 August 2008 (being the commencement date of the second year of the term of tenancy under the relevant New Lease Agreements) |
| “Group” | collectively, the Company and its subsidiaries from time to time |
| “HK\$” | Hong Kong dollars, the lawful currency of the Hong Kong Special Administrative Region of the PRC |
| “Independent Shareholders” | all shareholders of the Company other than Messrs. Beh Kim Ling, Gan Sem Yam and Gan Tiong Sia, Madam Gan Chu Cheng and V.S. Industry Berhad |
| “Independent Third Party(ies)” | person(s) who is/are independent of and not connected with the Company and is not a connected person as defined under the Listing Rules |
| “Leased Premises” | a total of 18 residential buildings comprising the Premises which will be leased to the Tenants by VS Management pursuant to the New Lease Agreements with an aggregate leased area of up to approximately 68,176 sq.m. |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange |
| “New Lease Agreements” | collectively, the VSA (Zhuhai) Lease Agreement, the VSI (Zhuhai) Lease Agreement and the VS Zhuhai Lease Agreement |
| “PRC” | the People's Republic of China, and for the purpose of this announcement, excluding the Hong Kong Special Administrative Region and the Macau Special Administrative Region |
| “Premises” | a residential complex comprising 26 residential buildings and other facilities to be developed by VS Management |
| “RMB” | Renminbi yuan, the lawful currency of the PRC |
| “sq.m.” | square metre |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Tenants” | VS Zhuhai, VSA (Zhuhai) and VSI (Zhuhai) |

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| “VSA (Zhuhai)” | VSA Electronics Technology (Zhuhai) Co., Ltd. (威士茂安商住電子科技(珠海)有限公司), a non wholly-owned subsidiary of the Company established in the PRC |
| “VSI (Zhuhai)” | V.S. Industry (Zhuhai) Co., Ltd. (威士茂電子塑膠(珠海)有限公司), a wholly-owned subsidiary of the Company established in the PRC |
| “VS Management” | V.S. (Zhuhai) Management Co., Ltd. (威士茂(珠海)管理有限公司), a wholly foreign-owned enterprise established in the PRC, the entire registered capital of which is owned by Mr. Beh Kim Ling, an executive Director |
| “VS Zhuhai” | V.S. Technology Industry Park (Zhuhai) Co., Ltd. (威士茂科技工業園(珠海)有限公司), a wholly-owned subsidiary of the Company established in the PRC |
| “VSA (Zhuhai) Lease Agreement” | the lease agreement dated 14 November 2006 and entered into between VSA (Zhuhai) as tenant and VS Management as landlord in relation to the lease of a block of residential building comprising the Premises for a term of two years commencing from 1 August 2007 |
| “VSI (Zhuhai) Lease Agreement” | the lease agreement dated 14 November 2006 and entered into between VSI (Zhuhai) as tenant and VS Management as landlord in relation to the lease of up to two blocks of residential buildings comprising the Premises for a term of two years commencing from 1 August 2007 |
| “VS Zhuhai Lease Agreement” | the lease agreement dated 14 November 2006 and entered into between VS Zhuhai as tenant and VS Management as landlord in relation to the lease of up to 16 blocks of residential buildings comprising the Premises for a term of two years commencing from 1 August 2007 |
| “%” | 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
V.S. International Group Limited
Beh Kim Ling
Chairman

Zhuhai, 14 November 2006

For the purposes of this announcement, conversion of currencies has been calculated using the following exchange rate:

HK\$1 = RMB1.01

Such exchange rate has been used for purposes of illustration only and do not constitute a representation that any amounts have been, could have been, or may be exchanged at such or any other rates.

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