

---

## IMPORTANT

---

**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, registered institution in securities, bank manager, solicitor, professional accountant or other professional advisers.

**If you have sold or transferred** all your shares in V.S. International Group Limited, you should hand this circular at once to the purchaser or transferee or to the bank, licensed securities dealer, registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or 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.

---



## 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: PROCESSING OF PRINTED CIRCUIT BOARDS

**Independent financial adviser**



---

A letter from the Board is set out on pages 4 to 10 of this circular. A letter from the Independent Board Committee is set out on pages 11 to 12 of this circular. A letter from Evolution Watterson containing its advice to the Independent Board Committee and the independent shareholders is set out on pages 13 to 16 of this circular.

28 August 2006

---

## CONTENTS

---

	<i>Page</i>
<b>DEFINITIONS</b> .....	1
 <b>LETTER FROM THE BOARD</b>	
1. INTRODUCTION .....	4
2. CONTINUING CONNECTED TRANSACTIONS .....	5
3. DISCLOSURE REQUIREMENTS AND WRITTEN SHAREHOLDERS' APPROVAL .....	8
4. POLL PROCEDURE .....	9
5. RECOMMENDATION .....	9
6. ADDITIONAL INFORMATION .....	10
 <b>LETTER FROM THE INDEPENDENT BOARD COMMITTEE</b> .....	11
 <b>LETTER FROM EVOLUTION WATTERSON</b> .....	13
 <b>APPENDIX – GENERAL INFORMATION</b> .....	17

---

## DEFINITIONS

---

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

- “associate”** has the meaning ascribed to it under the Listing Rules
- “Beh’s Family”** collectively:
- (a) Mr Beh Kim Ling, an executive Director and husband of Madam Gan Chu Cheng and the brother-in-law of Mr Gan Sem Yam and Mr Gan Tiong Sia, who directly and beneficially owns 31,000,775 shares of the Company, representing approximately 3.69% of the issued share capital of the Company;
  - (b) Madam Gan Chu Cheng, an executive Director and the wife of Mr Beh Kim Ling and the sister of Mr Gan Sem Yam and Mr Gan Tiong Sia, who directly and beneficially owns 37,150,775 shares of the Company, representing approximately 4.43% of the issued share capital of the Company;
  - (c) Mr Gan Sem Yam, an executive Director and the brother of Madam Gan Chu Cheng and Mr Gan Tiong Sia and the brother-in-law of Mr Beh Kim Ling, who directly and beneficially owns 31,000,775 shares of the Company, representing approximately 3.69% of the issued share capital of the Company; and
  - (d) Mr Gan Tiong Sia, a non-executive Director and the brother of Madam Gan Chu Cheng and Mr Gan Sem Yam and the brother-in-law of Mr Beh Kim Ling, who directly and beneficially owns 27,900,775 shares of the Company, representing approximately 3.32% of the issued share capital of the Company
- “Board”** the board of Directors
- “Company”** V.S. International Group Limited (威鉞國際集團有限公司), a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange

---

## DEFINITIONS

---

<b>“Continuing Connected Transactions”</b>	the continuing connected transactions constituted by the processing of printed circuit boards for electronic products by the VSIIL Group for STX under the Master Processing Agreement
<b>“Director(s)”</b>	the director(s) of the Company
<b>“Evolution Watterson”</b>	Evolution Watterson Securities Limited, the independent financial adviser to the Independent Board Committee and the independent shareholders of the Company in relation to the Continuing Connected Transactions and the related annual capped amounts
<b>“Group”</b>	collectively, the Company and its subsidiaries from time to time
<b>“HK\$”</b>	Hong Kong dollars, the lawful currency of Hong Kong
<b>“HKAS”</b>	Hong Kong Accounting Standards
<b>“HKFRS”</b>	Hong Kong Financial Reporting Standards
<b>“Hong Kong”</b>	the Hong Kong Special Administrative Region of the People’s Republic of China
<b>“Independent Board Committee”</b>	the board committee comprising the three independent non-executive Directors established by the Board for the purpose of advising the independent shareholders in relation to the Continuing Connected Transactions and the related annual capped amounts
<b>“Independent Third Party(ies)”</b>	person(s) who is/are third party(ies) independent of and not connected with the Company and the connected persons of the Company as defined under the Listing Rules
<b>“Latest Practicable Date”</b>	22 August 2006, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
<b>“Listing Rules”</b>	the Rules Governing the Listing of Securities on the Stock Exchange
<b>“Master Processing Agreement”</b>	the master processing agreement dated 8 August 2006 and entered into between VSIIL (for itself and on behalf of the other members of the VSIIL Group) and STX in relation to the Continuing Connected Transactions

---

## DEFINITIONS

---

“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.05 each in the share capital of the Company
“Shareholder(s)”	the shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“STX”	Sumitronics Hong Kong Ltd., a company incorporated in Hong Kong, a shareholder of VSA(HK) holding 10% of its issued share capital
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“VSA(HK)”	VSA Holding Hong Kong Co., Limited, a company incorporated under the laws of Hong Kong and an indirect non-wholly owned subsidiary of the Company
“VS Berhad”	V.S. Industry Berhad, a company incorporated under the laws of Malaysia whose shares are listed on the Bursa Malaysia and a substantial shareholder of the Company holding 371,996,900 shares of the Company, representing approximately 44.33% of the issued share capital of the Company
“VS Berhad Group”	VS Berhad and its subsidiaries and associated companies (excluding any member of the Group) from time to time
“VSIL”	V.S. International Industry Limited, a company duly incorporated under the laws of British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
“VSIL Group”	collectively, VSIL and its subsidiaries from time to time
“%”	per cent.

---

LETTER FROM THE BOARD

---



**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)**

***Executive Directors:***

Mr Beh Kim Ling (*Chairman*)

Mr Gan Sem Yam

Madam Gan Chu Cheng

Mr Zhang Pei Yu

***Registered office:***

Century Yard, Cricket Square

Hutchins Drive, P.O. Box 2681 G.T.

George Town, Grand Cayman

British West Indies

***Non-executive Director:***

Mr Gan Tiong Sia

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

4106, 41st Floor

Office Tower, Convention Plaza

1 Harbour Road

Wanchai, Hong Kong

***Independent non-executive Directors:***

Mr Diong Tai Pew

Mr Cheung Kwan Hung, Anthony

Mr Tang Sim Cheow

28 August 2006

*To the Shareholders*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS:  
PROCESSING OF PRINTED CIRCUIT BOARDS**

**1. INTRODUCTION**

By the announcement of the Company dated 8 August 2006, it was announced that VSIIL (for itself and on behalf of the other members of the VSIIL Group), which is a wholly-owned subsidiary of the Company, and STX had entered into the Master Processing Agreement dated 8 August 2006, in respect of the Continuing Connected Transactions.

The purpose of this circular is to provide you with information in relation to the Continuing Connected Transactions, the advice of the Independent Board Committee and the advice from Evolution Watterson to the Independent Board Committee and the independent shareholders.

---

## LETTER FROM THE BOARD

---

### 2. CONTINUING CONNECTED TRANSACTIONS

#### **Master Processing Agreement**

##### *Date*

8 August 2006

##### *Parties*

- (i) VSIIL (for itself and on behalf of the other members of the VSIIL Group) as processing agent; and
- (ii) STX as customer

##### *Processing of printed circuit boards*

Pursuant to the Master Processing Agreement, STX has agreed to engage VSIIL Group for the processing of printed circuit boards for electronic products by using surface mounting technologies from time to time during the term of the Master Processing Agreement.

VSIIL (for itself and on behalf of the other members of the VSIIL Group) and STX have acknowledged under the Master Processing Agreement that:

- (a) the processing of printed circuit boards under the Master Processing Agreement will be on normal commercial terms; and
- (b) the VSIIL Group shall not be obliged to accept any order from STX for the processing of printed circuit boards on terms and conditions that are less favourable to the VSIIL Group than those agreed between any member of the VSIIL Group and its other customers for the processing of printed circuit boards that are Independent Third Parties.

The processing fee is subject to the individual processing orders placed by STX with the VSIIL Group and will be determined between the parties on the basis of the cost of labour, machinery, production plant, transportation and ancillary production materials, plus a customary profit margin over the cost of processing. The processing fee payable to the VSIIL Group by STX under the Master Processing Agreement will be comparable to that payable to the VSIIL Group by its other customers who are Independent Third Parties for comparable processing work.

---

## LETTER FROM THE BOARD

---

### *Term*

From 8 August 2006 to 31 July 2009 (both days inclusive)

### **Annual capped amounts**

STX has been engaging VSA(HK), a non-wholly owned subsidiary of VSIL, for the processing of printed circuit boards for electronic products since April 2003 as part of the cooperation with the Group under the joint venture arrangement in VSA(HK).

On 22 December 2003, the Company was granted a waiver (“**Waiver**”) by the Stock Exchange from strict compliance with the disclosure and independent shareholders’ approval requirements under the then subsisting Chapter 14 of the Listing Rules for the processing transactions between VSA(HK) and STX for the three financial years ended 31 July 2006. For the three financial years ended 31 July 2006, the amount of processing fees received by VSA(HK) from STX did not exceed the annual capped amount as set out in the Waiver, being an amount not exceeding 4%, 5% and 6% of the Group’s sales in respect of each of the three financial years ended 31 July 2006 respectively. The Waiver expired on 31 July 2006.

The following table sets out the approximate amounts of processing fees paid by STX to VSA(HK) for the processing of printed circuit boards during each of the three financial years ended 31 July 2006:

	Year ended 31 July		
	2004	2005	2006
Approximate amounts of processing fees paid by STX	HK\$30,226,000	HK\$37,211,000	HK\$28,934,000 (Note 1)
Approximate percentage to the Group’s total sales during the relevant financial year	3%	3%	2% (Note 2)

#### *Notes:*

- 1 This figure is computed based on the updated management record as at 31 July 2006 which is subject to audit by the auditors and is different from HK\$28,674,000 as disclosed in the Company’s announcement dated 8 August 2006 which is computed based on actual processing fees for the first 11 months received and estimated processing fees receivable for the last month of the financial year ended 31 July 2006.
- 2 This is computed based on the Group’s total sales as recorded in the updated management accounts for the financial year ended 31 July 2006 that are subject to audit by the auditors.



---

## LETTER FROM THE BOARD

---

The following table sets out the expected annual capped amounts for the processing fees payable by STX to the VSIIL Group for the processing of printed circuit boards pursuant to the Master Processing Agreement for the period ending 31 July 2009:

	Year ending 31 July		
	2007	2008	2009
Expected amounts of processing fees payable by STX	HK\$34,000,000	HK\$41,000,000	HK\$46,000,000

The expected annual capped amount of the processing fees for the financial year ending 31 July 2007 is determined with reference to the confirmed orders placed by STX with the VSIIL Group and the estimated orders to be placed by STX based on the production plan provided by its customers as at the date of the Master Processing Agreement. Further, it is expected that there will be an increase in the orders placed by STX with the VSIIL Group in contemplation of new customers which may be secured by STX.

To the best knowledge of the Directors, STX will continue to engage the VSIIL Group for the processing of printed circuit boards in the next three financial years. It is expected that a growth of approximately 21% will be achieved for orders from STX during the financial year ending 31 July 2008 in view of the encouraging response from the existing customers of STX and the business potential of the new customer to be secured by STX during the current financial year. Further, it is expected that orders from STX in contemplation of the existing customers will be stable while STX will also continue to secure additional new customers. Accordingly a growth of approximately 12% is expected to be achieved during the financial year ending 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. VSIIL is an investment holding company and VSA(HK) has been principally engaged in the business of, among others, the processing of printed circuit boards and its related electronic semi-finished and/or finished products using the surface mounting technologies.

As STX is a worldwide distributor of electronic products and has extensive worldwide marketing and distribution networks, the Directors consider that, by engaging in the processing arrangement with STX, the Group would be able to capture more business opportunities in these high market potential products and to enlarge its market shares worldwide.

---

## LETTER FROM THE BOARD

---

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

- (a) the terms and conditions of the Master Processing Agreement were negotiated between the parties to it on an arm's length basis and are normal commercial terms that are fair and reasonable;
- (b) the expected annual capped amounts of the processing fees receivable from STX pursuant to the Master Processing Agreement for the period 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 the VSIIL Group and in the interest of the Company and its Shareholders as a whole.

### **3. DISCLOSURE REQUIREMENTS AND WRITTEN SHAREHOLDERS' APPROVAL**

STX is interested in 10% of the issued share capital of VSA(HK), an indirect non-wholly owned subsidiary of the Company. Given that STX is a substantial shareholder of a subsidiary of the Company, it is a connected person of the Company under the Listing Rules. Accordingly, the processing transactions as contemplated under the Master Processing Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. Based on the expected annual capped amounts mentioned above, the Continuing Connected Transactions are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As stated above, the Continuing Connected Transactions and the related expected annual capped amounts of the processing fees receivable by the VSIIL Group are normally subject to the approval by the independent shareholders. Under Rule 14A.43 of the Listing Rules, independent shareholders' approval for the Continuing Connected Transactions may be obtained by written independent shareholders' approval in lieu of holding a general meeting if (a) no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Continuing Connected Transactions; and (b) written independent shareholders' approval has been obtained from a Shareholder or a closely allied group of Shareholders who (together) hold more than 50% in nominal value of the issued share capital of the Company giving the right to attend and vote at the general meeting to approve the Continuing Connected Transactions.

As at the Latest Practicable Date, none of STX nor its associate(s) is a Shareholder and no Shareholder has a material interest in the Continuing Connected Transactions. Accordingly, no Shareholder would be required to abstain from voting at the general meeting if such meeting was convened to approve the Continuing Connected Transactions and the related annual capped amounts.

The Beh's Family is in aggregate interested in approximately 41.05% of the entire issued share capital of VS Berhad and each of the members of the Beh's Family is a director of VS Berhad. VS Berhad and the Beh's Family, as a closely allied group of Shareholders, are in aggregate beneficially entitled to approximately 59.46% of the issued share capital of

---

## LETTER FROM THE BOARD

---

the Company as at the Latest Practicable Date. A written approval in respect of the Continuing Connected Transactions has been obtained from VS Berhad and the Beh's Family as regards the terms of the Continuing Connected Transactions and the related annual capped amounts. On such basis, the Company has applied to the Stock Exchange for the grant of a waiver from strict compliance with the requirement of approval by independent shareholders of the Continuing Connected Transactions and the related annual capped amounts. As such, no general meeting of the Company will be convened for the purpose of approving the Continuing Connected Transactions and the related annual capped amounts.

#### 4. POLL PROCEDURE

Solely for information only, pursuant to article 72 of the articles of association of the Company, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless voting by way of poll is required by the Listing Rules or a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded:

- (i) by the Chairman of the meeting; or
- (ii) by at least three Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or
- (iii) by any Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all the Shareholders having the right to vote at the meeting; or
- (iv) by any Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy 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 the shares conferring that right.

#### 5. RECOMMENDATION

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr Diong Tai Pew, Mr Cheung Kwan Hung, Anthony and Mr Tang Sim Cheow, has been established to advise the independent shareholders as to the fairness and reasonableness of the terms of the Continuing Connected Transactions and the related expected annual capped amounts and whether the Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole. Your attention is drawn to the advice of the Independent Board Committee set out in its letter set out on pages 11 to 12 of this circular. Your attention is also drawn to the letter of advice from Evolution Watterson to the Independent Board Committee and the independent shareholders in respect of the Continuing Connected Transactions and the related expected capped amounts set out on pages 13 to 16 of this circular.

---

## LETTER FROM THE BOARD

---

The Independent Board Committee, having taken into account the advice of Evolution Watterson, considers that the Master Processing Agreement is on normal commercial terms. The Independent Board Committee also considers that the terms of the Continuing Connected Transactions and the related expected annual capped amounts are fair and reasonable and the Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole.

### **6. ADDITIONAL INFORMATION**

Your attention is drawn to the additional information set out in the appendix to this circular.

Yours faithfully,  
For and on behalf of the Board of  
**V.S. International Group Limited**

**Beh Kim Ling**  
*Chairman*



**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)**

28 August 2006

*To the independent shareholders*

Dear Sir or Madam,

**Continuing Connected Transactions**

We refer to the circular issued by the Company to its Shareholders and dated 28 August 2006 (“**Circular**”) of which this letter forms part. Terms defined in the Circular have the same meanings when used in this letter unless the context otherwise requires.

Under the Listing Rules, the transactions contemplated under the Master Processing Agreement constitute Continuing Connected Transactions for the Company and are normally subject to the approval of the independent shareholders. The Company has been granted by the Stock Exchange a waiver from strict compliance with the independent shareholders’ approval requirement pursuant to Rule 14A.43 of the Listing Rules on the basis set out in the “Letter from the Board” in the Circular.

We have been appointed by the Board to consider the terms of the Master Processing Agreement and to advise the independent shareholders in connection with the Continuing Connected Transactions as to whether, in our opinion, their terms and the related expected annual capped amounts are fair and reasonable and whether the Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole. Evolution Watterson has been appointed as the independent financial adviser to advise us and the independent shareholders in this respect.

We wish to draw your attention to the letter from the Board and the letter from Evolution Watterson as set out in the Circular. Having considered the principal factors and reasons considered by, and the advice of, Evolution Watterson as set out in its letter of advice, we consider that the Master Processing Agreement is on normal commercial terms. We also consider that the terms of the Continuing Connected Transactions and the related expected annual capped amounts are fair and reasonable and the Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole. Accordingly, assuming that a general meeting were to be convened for approving the Continuing Connected Transactions and the related expected annual capped amounts, we

---

## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

---

would recommend the independent shareholders to vote in favour of the ordinary resolutions to approve the Continuing Connected Transactions and the related expected annual capped amounts at such general meeting.

Yours faithfully,  
For and on behalf of  
Independent Board Committee of  
**V.S. International Group Limited**

**Diong Tai Pew**      **Cheung Kwan Hung, Anthony**      **Tang Sim Cheow**  
*Independent non-executive Directors*

---

## LETTER FROM EVOLUTION WATTERSON

---



28 August 2006

The Independent Board Committee and independent shareholders  
V.S. International Group Limited  
Suite 4106, 41st Floor  
Office Tower  
Convention Plaza  
1 Harbour Road  
Wanchai  
Hong Kong

Dear Sirs,

### **Continuing Connected Transactions with Sumitronics Hong Kong Ltd.**

We refer to our appointment as independent financial adviser to the Independent Board Committee and the independent shareholders of the Company in relation to the Continuing Connected Transactions between VSIIL (as processing agent (for itself and on behalf of the other members of the VSIIL Group)) and Sumitronics Hong Kong Ltd. (“STX”) (as customer), a connected person of the Company under the Listing Rules, under the Master Processing Agreement. Our role as independent financial adviser is to give our opinion as to whether the terms of the Continuing Connected Transactions and the related expected annual capped amounts for the three years ending 31 July 2009 are on normal commercial terms, in the ordinary and usual course of business, fair and reasonable and in the interest of the Company and its Shareholders as a whole. Details of the Continuing Connected Transactions are set out in the letter from the Board contained in the circular dated 28 August 2006 (the “**Document**”) to Shareholders. Our letter forms part of the Document and capitalised terms used in this letter have the same meanings as those defined in the Document.

In putting forth our advice, we have relied on the Company to provide us with all relevant information including current sales budgets of VSIIL Group for the period up to 31 July 2009. We were informed by the Company that such budgets, which were prepared based on latest information available to it, were accurate at the time they were made and continue to be so as at the Latest Practicable Date. We have discussed the bases and assumptions made by the Company in relation to those budgets and are of the view that the budgets so prepared have been made after due and careful consideration.

We consider that we have sufficient information to reach an informed view and to provide a reasonable basis for our advice. The Directors have also confirmed to us that no material facts have been omitted from the information supplied and we have no reason to suspect that any material information has been withheld by the Company or are misleading. We have not, however, for the purpose of this exercise, conducted any form of detailed investigation into the businesses or affairs of the VSIIL Group.

---

## LETTER FROM EVOLUTION WATTERSON

---

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

In arriving at our opinion on the terms of the Continuing Connected Transactions and the related annual capped amounts, we have taken into consideration the following factors and reasons:

#### **Reasons for the Ongoing Connected Transactions**

The Group is principally engaged in the manufacture and sales of plastic moulded components and parts for consumer electronic products and electrical appliances. It is also involved in the assembling of electronic products as well as the design and fabrication of moulds.

STX is a trading house under the Sumitomo Corporation Group that specializes in the trading between the United States and the Asia Pacific region, including Japan. Sumitomo Corporation Group is a conglomerate based in Tokyo and is involved in the trading of metal products, transportation and construction systems, machinery and electric systems, media and electronics, minerals and related resources, consumer goods and services as well as materials and real estates. The group achieved sales of 160 billion yen (US\$1.4 billion) for the year ended 31 March 2006.

The Continuing Connected Transactions commenced in April 2003 when STX began to place processing orders with VSA(HK) for printed circuit boards for electronic products. As STX is a worldwide distributor of electronic products and has extensive worldwide marketing and distribution networks, we agree with the Directors that by entering into the Master Processing Agreement, the Group will be able to continue to capture business opportunities in the processing of printed circuit boards for high-end electronics products using surface mount technologies and to enlarge its business opportunities in the worldwide market.

#### **Terms of the Master Processing Agreement**

Under the Master Processing Agreement, processing fees to be charged by VSIIL Group are negotiated on a case-by-case and arm's length basis. Processing fees are determined on the basis of cost of labor, machinery, production plant, transportation and ancillary production materials, plus a customary profit margin over the above costs. We have compared the above gross profit margin with that attained by the Group in the processing of printed circuit boards of electronic products for third parties and consider that profit margins achieved under the Continuing Connected Transactions are comparable to those achieved from processing jobs using the same surface mount technologies for other third party customers. On that basis, we are of the view that the Continuing Connected Transactions are beneficial to the Group and that the terms of the Master Processing Agreement are on normal commercial terms, in the ordinary and usual course of business as well as fair and reasonable so far as the independent shareholders of the Company are concerned.



---

## LETTER FROM EVOLUTION WATTERSON

---

### **Annual capped amounts**

Based on budgets prepared by the Company, it is currently expected that the annual capped amounts for such Continuing Connected Transactions will be approximately HK\$34 million, HK\$41 million and HK\$46 million for the three financial years ending 31 July 2009 respectively. We noted that the amounts of processing fees paid by STX for the three financial years ended 31 July 2006 amounted to approximately HK\$30.2 million, HK\$37.2 million and HK\$28.9 million respectively.

We understand from the Company that the reason for the decrease in the amount of processing fees from STX for the financial year ended 31 July 2006 as compared to the financial year before was due to the fact that production of one of the electronic product models produced for a major Japanese branded manufacturer have declined. However, given new models are expected to be launched and produced for this manufacturer for the financial year ending 31 July 2007, the Company is currently expecting processing fees derived from STX's existing customers for the current financial year to surpass the level attained in the financial year ended 31 July 2006. In addition, it is currently expected by the Company that new processing orders will be placed by STX for its new customers for the financial year ending 31 July 2007.

We have discussed with the Company the basis for determining the annual capped amount for the financial year ending 31 July 2007 and have reviewed the budget prepared by the Company in respect of processing fees payable by STX to the VSIL Group. Given that the annual capped amount for the financial year ending 31 July 2007 was determined with reference to confirmed orders placed by STX with the VSIL Group, estimated orders to be placed by STX for its existing customers, which are determined based on production plans currently provided by such customers, as well as indications from new customers, we are of the opinion that the annual capped amount so derived for the financial year ending 31 July 2007 is fair and reasonable so far as the independent shareholders of the Company are concerned.

VSIL is currently expecting processing fees received from STX for the financial year ending 31 July 2008 will amount to approximately HK\$41 million, representing an increase of approximately 21% from the year before. We have considered the growth rate of processing fees derived from STX for the three financial years ended 31 July 2006. Apart from the drop in processing fees in the financial year ended 31 July 2006 due to reason mentioned above, processing fees from STX increased by approximately 23% to HK\$37.2 million in the financial year ended 31 July 2005 from HK\$30.2 million in the financial year ended 31 July 2004. On that basis, we are of the view that the annual capped amount for the financial year ending 31 July 2008, which is estimated to increase by 21% from the year ending 31 July 2007, is fair and reasonable so far as the independent shareholders of the Company are concerned.

VSIL further estimates that processing fees received from STX for the financial year ending 31 July 2009 will amount to approximately HK\$46 million, representing HK\$5 million increase from HK\$41 million for the financial year ending 31 July 2008. We understand the above increase is arrived at based on the current assumption that at least one additional customer from STX will be secured for the financial year ending

---

## LETTER FROM EVOLUTION WATTERSON

---

31 July 2009. We note that the amount of processing fees expected to be derived from each new customer is currently at approximately HK\$5 million per annum. On that basis, we are of the view that the annual capped amount for the financial year ending 31 July 2009 is fair and reasonable so far as the independent shareholders of the Company are concerned.

### **Advice**

Having considered the above principal factors and reasons, we are of the opinion that the Continuing Connected Transactions (including their proposed annual capped amounts) are on normal commercial terms, in the ordinary and usual course of business, fair and reasonable and in the interest of the Company and its Shareholders as a whole. Accordingly, assuming that a general meeting were to be convened for approving the Continuing Connected Transactions and the related expected annual capped amounts, we would recommend the independent shareholders to vote in favour of the ordinary resolutions to approve the Continuing Connected Transactions and the related expected annual capped amounts at such general meeting.

Yours faithfully,  
For and on behalf of  
**Evolution Watterson Securities Limited**  
**David Tsang**  
*Managing Director*

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

## 2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of the SFO) which 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 or short positions which they were taken or deemed to have under section 344 of the SFO) or which were required to be entered in the register maintained by the Company pursuant to section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange, were as follows:

Name of Director (Note 1)	The Company/ name of associated corporation	Capacity	Number and class of securities (Note 2)	Approximate percentage of interest
Beh Kim Ling	The Company	Beneficial owner	39,200,775 Shares (L) (Notes 3 and 11)	4.67%
	V.S. Corporation (Hong Kong) Co., Limited ("VSHK")	Beneficial owner	3,750,000 non-voting deferred shares of HK\$1 each (L)	5.00%
	V.S. Investment Holdings Limited ("VS Investment")	Beneficial owner	5 ordinary shares of HK\$1 each (L)	–
Gan Sem Yam	The Company	Beneficial owner	39,200,775 Shares (L) (Notes 4 and 11)	4.67%
	VSHK	Beneficial owner	3,750,000 non-voting deferred shares of HK\$1 each (L)	5.00%
	VS Investment	Beneficial owner	5 ordinary shares of HK\$1 each (L)	–

**APPENDIX**
**GENERAL INFORMATION**

<b>Name of Director</b> <i>(Note 1)</i>	<b>The Company/ name of associated corporation</b>	<b>Capacity</b>	<b>Number and class of securities</b> <i>(Note 2)</i>	<b>Approximate percentage of interest</b>
Gan Chu Cheng	The Company	Beneficial owner	39,200,775 Shares (L) <i>(Notes 5 and 11)</i>	4.67%
	VSHK	Beneficial owner	3,750,000 non-voting deferred shares of HK\$1 each (L)	5.00%
	VS Investment	Beneficial owner	5 ordinary shares of HK\$1 each (L)	–
Zhang Pei Yu	The Company	Beneficial owner	626,000 Shares (L) <i>(Notes 6 and 11)</i>	0.07%
Gan Tiong Sia	The Company	Beneficial owner	29,900,775 Shares (L) <i>(Notes 7 and 11)</i>	3.56%
	VSHK	Beneficial owner	3,750,000 non-voting deferred shares of HK\$1 each (L)	5.00%
Diong Tai Pew	The Company	Beneficial owner	500,000 Shares (L) <i>(Notes 8 and 11)</i>	0.06%
Cheung Kwan Hung, Anthony	The Company	Beneficial owner	500,000 Shares (L) <i>(Notes 9 and 11)</i>	0.06%
Tang Sim Cheow	The Company	Beneficial owner	300,000 Shares (L) <i>(Notes 10 and 11)</i>	0.04%

*Notes:*

1. Mr. Beh Kim Ling is the husband of Madam Gan Chu Cheng, and the brother-in-law of Messrs. Gan Sem Yam and Gan Tiong Sia. Madam Gan Chu Cheng is the sister of Messrs. Gan Sem Yam and Gan Tiong Sia.
2. The letter “L” represents the Director’s interest in the shares and underlying shares of the Company or its associated corporations.
3. 8,200,000 of these Shares were Shares that would be allotted and issued upon exercise in full of share options granted to Mr. Beh Kim Ling by the Company under the share option scheme of the Company.
4. 8,200,000 of these Shares were Shares that would be allotted and issued upon exercise in full of share options granted to Mr. Gan Sem Yam by the Company under the share option scheme of the Company.
5. 2,050,000 of these Shares were Shares that would be allotted and issued upon exercise in full of share options granted to Madam Gan Chu Cheng by the Company under the share option scheme of the Company.

6. 625,000 of these Shares were Shares that would be allotted and issued upon exercise in full of share options granted to Mr. Zhang Pei Yu by the Company under the share option scheme of the Company.
7. 2,000,000 of these Shares were Shares that would be allotted and issued upon exercise in full of share options granted to Mr. Gan Tiong Sia by the Company under the share option scheme of the Company.
8. These were Shares that would be allotted and issued upon exercise in full of share options granted to Mr. Diong Tai Pew by the Company under the share option scheme of the Company.
9. These were Shares that would be allotted and issued upon exercise in full of share options granted to Mr. Cheung Kwan Hung, Anthony by the Company under the share option scheme of the Company.
10. These were Shares that would be allotted and issued upon exercise in full of share options granted to Mr. Tang Sim Cheow by the Company under the share option scheme of the Company.
11. On 12 July 2005, share options were granted by the Company under the share option scheme to, among other eligible participants, the Directors. All these share options, which remained outstanding as at the Latest Practicable Date, are exercisable at a subscription price of HK\$0.18 per Share during the exercise periods set out below. Details of the share options granted are as follows:

Name of Director	Number of Shares that would be allotted and issued	Exercise period
Beh Kim Ling	(i) 2,050,000	12 July 2005 to 12 July 2007
	(ii) 2,050,000	25 November 2005 to 12 July 2007
	(iii) 2,050,000	10 April 2006 to 12 July 2007
	(iv) 2,050,000	23 August 2006 to 12 July 2007
Gan Sem Yam	(i) 2,050,000	12 July 2005 to 12 July 2007
	(ii) 2,050,000	25 November 2005 to 12 July 2007
	(iii) 2,050,000	10 April 2006 to 12 July 2007
	(iv) 2,050,000	23 August 2006 to 12 July 2007
Gan Chu Cheng	(i) 2,050,000	23 August 2006 to 12 July 2007
Zhang Pei Yu	(i) 625,000	23 August 2006 to 12 July 2007
Gan Tiong Sia	(i) 500,000	12 July 2005 to 12 July 2007
	(ii) 500,000	25 November 2005 to 12 July 2007
	(iii) 500,000	10 April 2006 to 12 July 2007
	(iv) 500,000	23 August 2006 to 12 July 2007

<b>Name of Director</b>	<b>Number of Shares that would be allotted and issued</b>	<b>Exercise period</b>
Diong Tai Pew	(i) 125,000	12 July 2005 to 12 July 2007
	(ii) 125,000	25 November 2005 to 12 July 2007
	(iii) 125,000	10 April 2006 to 12 July 2007
	(iv) 125,000	23 August 2006 to 12 July 2007
Cheung Kwan Hung, Anthony	(i) 125,000	12 July 2005 to 12 July 2007
	(ii) 125,000	25 November 2005 to 12 July 2007
	(iii) 125,000	10 April 2006 to 12 July 2007
	(iv) 125,000	23 August 2006 to 12 July 2007
Tang Sim Cheow	(i) 75,000	12 July 2005 to 12 July 2007
	(ii) 75,000	25 November 2005 to 12 July 2007
	(iii) 75,000	10 April 2006 to 12 July 2007
	(iv) 75,000	23 August 2006 to 12 July 2007

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of the SFO) which 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 or short positions which they were taken or deemed to have under section 344 of the SFO) or which were required to be entered in the register maintained by the Company pursuant to section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange.

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any asset which have since 31 July 2005, being the date to which the latest published audited financial statements of the Group were made up, been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group, other than (i) the supply of moulds under the master supply agreement dated 28 December 2005 (“**Master Supply Agreement**”) entered into between the Group and VS Berhad, details of which were included in the announcement of the Company dated 29 December 2005; (ii) the sub-contracting of the design and fabrication of moulds under the master manufacturing agreement dated 12 May 2006 (“**Master Manufacturing Agreement**”) entered into between the Group and VS Berhad, details of which were included in the announcement of the Company dated 15 May 2006; (iii) the leasing of the properties to the Group from V.S. (Zhuhai) Management Co., Ltd. (“**VS Management**”) under the lease agreement dated 11 December 2003 (“**2003 Lease Agreement**”) and the lease agreement dated 2 August 2006 (“**New Lease Agreement**”), details of which were included in the announcements of the Company dated 11 December 2003 and 2 August 2006 respectively and the circular of the Company dated 31 December 2003; and (iv) the supply of recycled materials and parts for machinery from VS Berhad to the Group, which was exempt from the announcement, reporting and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules. Particulars of the above transactions are summarised as follows:

- (i) Pursuant to the Master Supply Agreement, the VSIIL (for itself and on behalf of the other members of the VSIIL Group) has agreed to sell, and the VS Berhad (for itself and on behalf of the other members of the VS Berhad Group) has agreed to purchase, moulds designed and fabricated by the VSIIL Group and certain plastic moulded products and parts manufactured by the VSIIL Group during the term of the Master Supply Agreement. According to the management accounts of the Group for the financial year ended 31 July 2006, the sales amounts of moulds and of plastic moulded products and parts from the VSIIL Group to the VS Berhad Group under the Master Supply Agreement for the financial year ended 31 July 2006 amounted to approximately HK\$2,903,000.
- (ii) Pursuant to the Master Manufacturing Agreement, VSIIL (for itself and on behalf of the other members of the VSIIL Group) has agreed to appoint VS Berhad (for itself and on behalf of the other members of the VS Berhad Group) to act as a sub-contractor of the VSIIL Group (and VS Berhad has agreed to act as such) for the design and fabrication of moulds from time to time during the term of the Master Manufacturing Agreement. According to the management accounts of the Group for the financial year ended 31 July 2006, the fees paid by the VSIIL Group to the VS Berhad Group for the design and fabrication of moulds under the Master Manufacturing Agreement for the financial year ended 31 July 2006 amounted to approximately HK\$2,024,000.
- (iii) On 2 August 2006, V.S. Technology Industry Park (Zhuhai) Co., Ltd. (“**VS Zhuhai**”), a wholly-owned subsidiary of the Company, entered into the New Lease Agreement (which superseded the 2003 Lease Agreement) with VS Management, a wholly foreign-owned enterprise established in the People’s Republic of China, the entire registered capital of which is owned by Mr. Beh Kim Ling in relation to the lease of certain residential units by the Group from VS Management for a term of 1 year commencing from 1 August 2006. According to the management accounts of the Group for the financial year ended

31 July 2006, the rent and management fee paid by the Group to VS Management for the leased properties under the 2003 Lease Agreement for the financial year ended 31 July 2006 amounted to approximately HK\$8,504,000.

- (iv) During the financial year ended 31 July 2006, VS Zhuhai purchased some recycled materials and parts for machinery from VS Berhad. According to the management accounts of the Group for the financial year ended 31 July 2006, total purchases of recycled materials and parts for machinery from VS Berhad amounted to approximately HK\$537,000.

As at the Latest Practicable Date, none of the Directors were materially interested in any contract or arrangement entered into by any member of the Group since 31 July 2005, being the date to which the latest published audited financial statements of the Group were made up, and which was significant in relation to the business of the Group, other than (i) the Master Supply Agreement; (ii) the Master Manufacturing Agreement; (iii) the 2003 Lease Agreement and the New Lease Agreement; and (iv) the supply of recycled materials and parts for machinery from VS Berhad to the Group.

### 3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as is known to, or can be ascertained after reasonable enquiry by, the Directors, the persons (not being a Director or chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

Name of Shareholder	Number of Shares held <i>(Note)</i>	Nature of interest/ Capacity	Approximate percentage of interest
VS Berhad	371,996,900 (L)	Beneficial owner	44.33%
Inabata Sangyo (HK) Limited	82,000,000 (L)	Beneficial owner	9.77%
Atlantis Investment Management Ltd	48,156,000 (L)	Investment manager	5.74%

*Note:* The letter "L" represents the person's interest in the Shares.

Save as disclosed above, there was no person (not being a Director or chief executive of the Company) known to the Directors, who, as at the Latest Practicable Date, had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.



#### 4. SUBSTANTIAL SHAREHOLDERS OF SUBSIDIARIES OF THE COMPANY

As at the Latest Practicable Date, so far as is known to, or can be ascertained after reasonable enquiry by, the Directors, the following persons (not being a Director or chief executive of the Company) were, either directly or indirectly, interested in shares representing 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of a subsidiary of the Company:

Name of subsidiary	Name of shareholder	No. of shares held	Percentage of shareholdings
VSA(HK)	Andes Electric Co., Ltd.	2,964,000 ordinary shares of HK\$1 each	19%
VSA(HK)	STX	1,560,000 ordinary shares of HK\$1 each	10%

#### 5. SERVICE AGREEMENTS

As at the Latest Practicable Date, none of the Directors had entered or proposed to enter into a service contract with any member of the Group which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

#### 6. MATERIAL ADVERSE CHANGES

The Company has changed certain of its accounting policies following its adoption of new/revised HKFRS and HKAS which are effective for accounting periods commencing on or after 1 August 2005 and relevant to its operations. The changes in accounting policies with material adverse impact to the financial statements are summarised below:–

- (a) The adoption of revised HKAS 17 has resulted in the leasehold interest in land held for own use to have been accounted for as being held under an operating lease. Such leasehold land will no longer be revalued. The buildings which are situated on such land are also stated at cost less accumulated depreciation, rather than at fair value. These changes have resulted in a decrease in net operating reserves by approximately HK\$111,261,000 as at 1 August 2005.
- (b) The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31 July 2005, the provision of share options to employees did not result in any expense in the income statement. Effective from 1 August 2005, the Group recorded the cost of share options granted to employees as expenses in the income statement. This change brought impacts to equity as at 31 January 2006 as follows:
  - (1) an increase in employee share-based capital reserve by approximately HK\$1,453,000;

- (2) an increase in share premium by approximately HK\$307,000; and
- (3) a decrease in retained earnings of approximately HK\$1,760,000.

Save as disclosed in notes 2 and 20 to the consolidated financial statement of the Group as shown in the Company's interim report for the six months ended 31 January 2006 (as summarised above), the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 July 2005, being the date to which the latest published audited financial statements of the Group were made up.

## 7. COMPETING INTEREST

As at the Latest Practicable Date, Messrs Beh Kim Ling, Gan Sem Yam, Gan Tiong Sia and Madam Gan Chu Cheng, all being Directors, were directors and shareholders of VS Berhad. VS Berhad is currently engaged in the manufacturing, assembling and sale of electronic and electrical products including primarily high-end vacuum cleaners, television and remote controls as well as plastic moulded components and parts. VS Berhad is also engaged in the business of mould design and fabrication.

In order to delineate the businesses of VS Berhad and its subsidiaries and those of the Group clearly and to regulate their respective activities with their customers, VS Berhad and the Company has given to each other certain non-compete undertakings under a territorial delineation agreement dated 20 January 2002 ("**Territorial Agreement**"), particulars of which are set out under "Relationship with the Group" in the section headed "Information on VS Berhad" in the Company's prospectus dated 28 January 2002.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and their associates was interested in any business apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with that of the Group.

## 8. QUALIFICATION AND CONSENT OF EXPERT

Evolution Watterson is a corporation licensed to carry on the regulated activities type 1 (dealing in securities) and type 6 (advising on corporate finance) as set out in Schedule 5 to the SFO.

Evolution Watterson has given and has not withdrawn its written consent to the issue of this circular with the reference to its name and its letter in the form and context in which it appears.

As at the Latest Practicable Date, Evolution Watterson did not have any shareholding, directly or indirectly, in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member of the Group.

Evolution Watterson does not have any interest, direct or indirect, in any assets which since 31 July 2005, being the date to which the latest published audited financial statements of the Group were made up, have been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

#### **9. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the office of Chiu & Partners, 41st Floor, Jardine House, 1 Connaught Place, Central, Hong Kong during normal business hours from 28 August 2006 up to and including 11 September 2006:

- (i) the Master Processing Agreement;
- (ii) the Master Supply Agreement;
- (iii) the Master Manufacturing Agreement;
- (iv) the 2003 Lease Agreement;
- (v) the New Lease Agreement; and
- (vi) the Territorial Agreement.

#### **10. MISCELLANEOUS**

In case of inconsistency, the English text of this circular shall prevail over its Chinese text.