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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 TRANSACTION: LEASE OF PROPERTIES

On 11 December 2003, VS Zhuhai entered into the 2003 Lease Agreement with VS Management for leasing the residential units comprising the Premises for a term of nine years commencing from 15 January 2004. A waiver granted by the Stock Exchange from strict compliance with the announcement requirement and the shareholders' approval requirement under the then existing Rule 14.26 of the Listing Rules in relation to the 2003 Lease Agreement expired on 31 July 2006.

On 2 August 2006, VS Zhuhai entered into the New Lease Agreement with VS Management (which superseded the 2003 Lease Agreement) in relation to the lease of the residential units comprising the Premises for a term of one year commencing from 1 August 2006. The 2003 Lease Agreement was terminated and ceased to have any effect upon the signing of the New Lease Agreement.

VS Zhuhai is a 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 arrangement as contemplated under the New Lease Agreement constitutes a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

It is expected that the rent and management fee payable by VS Zhuhai under the New Lease Agreement for the financial year ending 31 July 2007 will be less than HK\$10 million and the applicable percentage ratios (as prescribed under Chapter 14 of the Listing Rules) will be more than 2.5% but less than 25%. Accordingly, the tenancy arrangement as contemplated under the New Lease Agreement for the financial year ending 31 July 2007 will only be 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 requirement under Chapter 14A of the Listing Rules.

Reference is made to an announcement dated 11 December 2003 and the circular dated 31 December 2003 of the Company in relation to the 2003 Lease Agreement.

On 11 December 2003, VS Zhuhai entered into the 2003 Lease Agreement with VS Management for leasing the residential units comprising the Premises for a term of nine years commencing from 15 January 2004. A waiver granted by the Stock Exchange from strict compliance with the announcement requirement and the shareholders' approval requirement under the then existing Rule 14.26 of the Listing Rules in relation to the 2003 Lease Agreement expired on 31 July 2006.

On 2 August 2006, VS Zhuhai entered into the New Lease Agreement with VS Management (which superseded the 2003 Lease Agreement) in relation to the lease of the residential units comprising the Premises for a term of one year commencing from 1 August 2006. The 2003 Lease Agreement was terminated and ceased to have any effect upon the signing of the New Lease Agreement.

NEW LEASE AGREEMENT

Date: 2 August 2006

Parties:

Tenant: VS Zhuhai, a wholly-owned subsidiary of the Company

Landlord: VS Management, a company wholly-owned by Mr. Beh Kim Ling, an executive Director

Premises:

Residential complex which is planned 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.

Term:

One year commencing from 1 August 2006.

Use:

The Premises can only be used as the staff quarters of VS Zhuhai and other members of the Group. All the residential units comprising the Premises shall not be leased to any other third party without the consent of VS Zhuhai.

Rent and Management Fee:

As agreed under the New Lease Agreement, the rent and management fee per sq.m. per month are RMB18.00 (equivalent to approximately HK\$17.48) and RMB1.30 (equivalent to approximately HK\$1.26) respectively. To the best knowledge of the Directors, the rent and management fee per sq.m. are determined by reference to the rent and management fee payable for premises with comparable facilities in Zhuhai.

The annual aggregate amount of rent and management fee payable by VS Zhuhai under the New Lease Agreement is estimated to be RMB9,551,000 (equivalent to approximately HK\$9,273,000) which is payable by cash in advance by two installments. The payment date of the first installment in the amount of RMB4,300,000 (equivalent to approximately HK\$4,175,000) will fall on 15 August 2006 and the second installment in the estimate amount of RMB5,251,000 (equivalent to approximately HK\$5,098,000) will fall on 15 February 2007.

Within a period of not more than 10 days prior to the due date for payment of the second installment, VS Zhuhai and VS Management will discuss about and assess the latest requirements for the leased area and the availability of the residential units comprising the Premises for the six-month period from 1 February 2007 to 31 July 2007 pursuant to which VS

Zhuhai will be entitled to request for adjustment to the rent and management fee for the relevant six-month period on a pro-rata basis. In addition, VS Zhuhai will be entitled to request for adjustment of the amount of rent and management fee per sq.m. per month with effect from 1 February 2007 for the amount payable for the following six-month period by reference to the fair market rental and management fee of comparable premises as determined by an independent property valuer on a record date falling not earlier than two months from 1 February 2007.

EXPECTED CAPPED AMOUNT OF RENT AND MANAGEMENT FEE PAYABLE

As agreed under the New Lease Agreement, the annual aggregate amount of rent and management fee payable by VS Zhuhai is estimated to be RMB9,551,000 (equivalent to approximately HK\$9,273,000) subject to the adjustment mechanism as set out above.

For the period from 15 January 2004, being the commencement date of the 2003 Lease Agreement, to 31 July 2004 and the two financial years ended 31 July 2006, the aggregate amount of rent and management fee paid to VS Management amounted to approximately HK\$2,049,000, HK\$7,014,000 and HK\$8,504,000 (based on the management record as at 31 July 2006 which is subject to audit by the auditors) respectively.

As at the date of this announcement, there are approximately 5,000 staff living in the Premises with an aggregate area of approximately 42,000 sq.m. Based on the current availability and the construction schedule of the Premises and the current business plan of VS Zhuhai, it is expected that the number of staff employed by VS Zhuhai who will live in the Premises and the number of residential units available for lease under the New Lease Agreement will remain relatively stable throughout the financial year ending 31 July 2007. However, taking into account the potential fluctuation of the exchange rate between Renminbi and Hong Kong dollars and the adjustment mechanism in relation to the rent and management fee payable for the six-month period commencing from 1 February 2007 to 31 July 2007, it is expected that the aggregate maximum amount of rent and management fee payable by VS Zhuhai for the financial year ending 31 July 2007 will not exceed HK\$9,700,000.

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

REASONS FOR THE TRANSACTION

The New Lease Agreement was entered into by VS Zhuhai and VS Management after arm's length negotiations. The Directors consider that the proximity of the Premises to the production facilities of VS Zhuhai 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. The Directors also consider that by providing a comfortable living environment to its employees, the employees' morale and performance can be enhanced which in turn will lead to increase in the Group's competitiveness.

The Directors (including independent non-executive Directors) are of the opinion that:

- (i) the terms (including the rent and management fee) of the New Lease Agreement are on normal commercial terms that are fair and reasonable;
- (ii) the expected annual capped amount of the rent and management fee payable by VS Zhuhai for the financial year ending 31 July 2007 is fair and reasonable; and
- (iii) the continuing connected transaction constituted under the New Lease Agreement is 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.

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 arrangement as contemplated under the New Lease Agreement constitutes a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

It is expected that the rent and management fee payable by VS Zhuhai under the New Lease Agreement for the financial year ending 31 July 2007 will be less than HK\$10 million and the applicable percentage ratios (as prescribed under Chapter 14 of the Listing Rules) will be more than 2.5% but less than 25%. Accordingly, the tenancy arrangement as contemplated under the New Lease Agreement for the financial year ending 31 July 2007 will only be 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 requirement under Chapter 14A of the Listing Rules.

In the event that the annual rent and management fee payable by VS Zhuhai under the New Lease Agreement will exceed HK\$9,700,000, the Company will make further announcement in compliance with the relevant requirements under the Listing Rules.

DEFINITIONS

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

“associate(s)”	has the meaning as ascribed thereto under the Listing Rules
“Company”	V.S. 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
“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
“2003 Lease Agreement”	the lease agreement dated 11 December 2003 and entered into between VS Zhuhai as tenant and VS Management as landlord in relation to the lease of the Premises
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“New 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 which superseded the 2003 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 which is planned to comprise 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
“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
“%”	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, 2 August 2006

* *For identification purpose only*

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

HK\$1 = RMB1.03

Such exchange rate has been used for purposes of illustration only and does 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.