

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this announcement, 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 announcement.



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

The Board announces 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 VS Berhad (for itself and on behalf of the other members of the VS Berhad Group) have entered into the Master Manufacturing Agreement on 12 May 2006.

Pursuant to the Master Manufacturing Agreement, VSIIL (for itself and on behalf of the other members of the VSIIL Group) has agreed to appoint, and VS Berhad (for itself and on behalf of the other members of the VS Berhad Group) has agreed to act, as a sub-contractor of the VSIIL Group for the design and fabrication of moulds from time to time during the term of the Master Manufacturing Agreement. The quantity, specification, payment terms and fees for the design and fabrication of moulds by the VS Berhad Group under the Master Manufacturing Agreement will be subject to the individual manufacturing orders placed by the VSIIL Group with the VS Berhad Group.

Given that VS Berhad is a substantial shareholder of the Company, the subcontracting of the design and fabrication of moulds by the VSIIL Group to the VS Berhad Group under the Master Manufacturing Agreement constitutes Continuing Connected Transactions for the Company under Chapter 14A of the Listing Rules. Based on the expected annual capped amounts mentioned below, the Continuing Connected Transactions are subject to the reporting and disclosure requirements under Rule 14A.34 of the Listing Rules and is exempt from independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

The Board announces that VSIL (for itself and on behalf of the other members of the VSIL Group), which is a wholly-owned subsidiary of the Company, and VS Berhad (for itself and on behalf of the other members of the VS Berhad Group) have entered into the Master Manufacturing Agreement on 12 May 2006.

MASTER MANUFACTURING AGREEMENT

Date

12 May 2006

Parties

- (i) VSIL (for itself and on behalf of the other members of the VSIL Group) as principal; and
- (ii) VS Berhad (for itself and on behalf of the other members of the VS Berhad Group) as sub-contractor

Design and fabrication of moulds

Pursuant to the Master Manufacturing Agreement, VSIL (for itself and on behalf of the other members of the VSIL Group) has agreed to appoint, and VS Berhad (for itself and on behalf of the other members of the VS Berhad Group) has agreed to act, as a sub-contractor of the VSIL Group for the design and fabrication of moulds from time to time during the term of the Master Manufacturing Agreement. The quantity, specification, payment terms and fees for the design and fabrication of moulds by the VS Berhad Group under the Master Manufacturing Agreement will be subject to the individual manufacturing orders placed by the VSIL Group with the VS Berhad Group.

VSIL (for itself and on behalf of the other members of the VSIL Group) and VS Berhad (for itself and on behalf of the other members of the VS Berhad Group) have acknowledged under the Master Manufacturing Agreement that:

- (a) the sub-contracting of the design and fabrication of moulds under the Master Manufacturing Agreement will be on normal commercial terms; and
- (b) the VSIL Group shall not be obliged to offer any terms and conditions to the VS Berhad Group for the design and fabrication of moulds that are more favourable to the VS Berhad Group than those agreed between any member of the VSIL Group and its other sub-contractors that are Independent Third Parties.

Term

From 12 May 2006 to 31 July 2007 (both days inclusive)

Annual capped amounts

The following table sets out the expected annual capped amounts for the fees payable by the VSIL Group to the VS Berhad Group for the design and fabrication of moulds pursuant to the Master Manufacturing Agreement for the period ending 31 July 2007:

	Year ending 31 July	
	2006	2007
Expected Amounts	HK\$5,000,000	HK\$5,000,000

The amount of subcontracting fee is subject to the individual manufacturing orders placed by the VSIL Group with the VS Berhad Group and will be determined between the parties by reference to the then existing market conditions. The subcontracting fee payable to the VS Berhad Group under the Master Manufacturing Agreement will be comparable to that payable to the other sub-contractors of the VSIL Group who are Independent Third Parties for comparable products.

The mould manufacturing orders to be subcontracted to the VS Berhad Group mainly relate to the orders placed by a customer of the VSIL Group who is also one of the customers of the VS Berhad Group (“**Customer**”). The capped amount of the subcontracting fee for the period from 12 May 2006 up to 31 July 2007 is determined with reference to the amount of the confirmed orders placed and some forecast orders provided by the Customer to the VSIL Group based on the most updated records as at the date of this announcement. The amount of the confirmed orders placed with the VSIL Group by the Customer amounted to approximately US\$3.16 million (equivalent to approximately HK\$24.65 million). The VSIL Group has decided to sub-contract part of those confirmed orders and it is expected that the sub-contracting fee payable to the VS Berhad Group will amount to approximately US\$0.37 million (equivalent to approximately HK\$2.89 million). The VSIL Group may consider sub-contracting additional orders of approximately US\$0.27 million (equivalent to approximately HK\$2.11 million) to the VS Berhad Group towards June 2006 if its own production capacity cannot cope with the orders by then. It is expected that new orders will continue to be placed by the Customer for the next financial year ending 31 July 2007.

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. The VS Berhad Group is principally involved in the manufacturing, assembling and sale of electronic and plastic moulded products, components and parts.

The production lines for the design and fabrication of moulds of the VSIL Group have reached their full capacity recently and the VSIL Group does not have the capacity to take up all the purchase orders placed by its customers. With a view to honour the orders placed by the customers and to maximise the Group’s revenue, the VSIL Group has entered into sub-contracting arrangements with various parties including Independent Third Parties and the VS Berhad Group for the manufacturing of moulds. The VSIL Group foresees that orders for design and fabrication of moulds will remain encouraging in the future. To the best knowledge of the Directors, the VSIL Group has no intention to invest substantially to increase its capacity of the production of moulds in the short run and hence, certain of its orders for the production of moulds will need to be sub-contracted to other mould makers.

As mentioned above, the Customer has placed orders for the production of moulds with the VSIIIL Group. Due to the limit of the production capacity of the VSIIIL Group, the VSIIIL Group has intention to sub-contract certain of its orders from the Customer to the VS Berhad Group with a view that the moulds produced will then be transferred to the plastic injection plant of VS Berhad for the production of plastic injection moulded products and parts for the Customer. The Directors consider that it will be more cost efficient to sub-contract the design and fabrication work to the VS Berhad Group than to the Independent Third Party sub-contractors in terms of logistic. In addition, as VS Berhad has the experience in dealing with the Customer, the Directors believe that the VS Berhad Group is more familiar with the Customer's requirements and can better cater for their needs. Due to the business relationship between the VS Berhad Group and the Customer, the Customer can also communicate directly with VS Berhad for mould testing and trial runs and follow-up work will be undertaken by VS Berhad. Hence, the administrative costs of the Group can be reduced.

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

- (a) the terms and conditions of the Master Manufacturing 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 fees payable to the VS Berhad Group pursuant to the Master Manufacturing Agreement for the period ending 31 July 2007 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 VSIIIL Group and in the interest of the Company and its shareholders as a whole.

GENERAL

Given that VS Berhad is a substantial shareholder of the Company, the subcontracting of the design and fabrication of moulds by the VSIIIL Group to the VS Berhad Group under the Master Manufacturing Agreement constitutes 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 and disclosure requirements under Rule 14A.34 of the Listing Rules and is exempt from independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

DEFINITIONS

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

“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

“Continuing Connected Transactions”	the continuing connected transactions constituted by the sub-contracting of the design and fabrication of moulds by the VSIIIL Group to the VS Berhad Group under the Master Manufacturing Agreement
“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 Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Party(ies)”	Person(s) who is/are independent of and not connected with the Company and is/are not connected person(s) as defined under the Listing Rules
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Master Manufacturing Agreement”	the master manufacturing agreement dated 12 May 2006 and entered into between VSIIIL (for itself and on behalf of the other members of the VSIIIL Group) and VS Berhad (for itself and on behalf of the other members of the VS Berhad Group) in relation to the Continuing Connected Transactions
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“US\$”	United States dollars, the lawful currency of the United States of America
“VSIIIL”	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
“VSIIIL Group”	collectively, VSIIIL and its subsidiaries from time to time
“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
“VS Berhad Group”	collectively, VS Berhad and its subsidiaries and associated companies (excluding any member of the Group) from time to time
“%”	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, 15 May 2006

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