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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 TRANSACTIONS: JOINT VENTURE AGREEMENT

The Directors are pleased to announce that on 8 September 2004, VSII and VS Zhuhai, wholly owned subsidiaries of the Company, entered into the conditional Joint Venture Agreement with Wako for the cooperation and joint investment in the PRC to set up processing facilities for the manufacture of the Products in the PRC.

The Joint Venture Agreement is conditional upon the satisfaction of the conditions set out in the section headed “**Duration and Conditions of the Joint Venture Agreement**” below.

Under the Joint Venture Agreement, VSII and Wako shall as soon as practicable after the signing of the Joint Venture Agreement incorporate or set up JVC and subscribe for 189 and 811 Shares of US\$1 each in the capital of JVC respectively for cash at par. At completion of the Joint Venture Agreement, VSII and Wako shall further subscribe for 491,211 and 2,107,789 Shares respectively, after which the entire issued share capital of JVC will be beneficially owned as to 18.9% by VSII and 81.1% by Wako.

The Joint Venture Agreement provides that as soon as practicable after its signing by the parties, JVC, Wako and VS Zhuhai shall enter into the PRC JV Agreement for the establishment of PRC JV and the total investment and the registered capital of PRC JV will be US\$5,000,000 (equivalent to approximately HK\$38,950,000) and US\$3,900,000 (equivalent to approximately HK\$30,381,000) respectively. The registered capital of PRC JV shall be contributed as to US\$2,500,000 (equivalent to approximately HK\$19,475,000) (64.1%) by JVC in cash, US\$30,000 (equivalent to approximately HK\$233,700) (0.8%) by Wako in cash and US\$1,370,000 (equivalent to approximately HK\$10,672,300) (35.1%) by VS Zhuhai by way of machinery and equipment.

The Group's total investment in the JVC Group will be funded out of internal resources of the Group.

Pursuant to the Joint Venture Agreement, immediately after signing of the Joint Venture Agreement and the setting up of JVC, (1) Wako as licensor and PRC JV (JVC, Wako and VS Zhuhai signing for and on behalf of PRC JV in their capacity as its investors) as licensee shall enter into the Technical Licence and Assistance Agreement and (2) VS Zhuhai as landlord and PRC JV (JVC, Wako and VS Zhuhai signing for and on behalf of PRC JV in their capacity as its investors) as tenant shall enter into the Lease Agreement. Immediately upon the establishment of PRC JV, its board of directors shall resolve (i) to assume all the rights, obligations and liabilities under the Technical Licence and Assistance Agreement and the Lease Agreement and (ii) to authorise its legal representative to execute a formal version of the Technical Licence and Assistance Agreement with Wako and the Lease Agreement with VS Zhuhai.

Under the Joint Venture Agreement, VS Zhuhai shall transfer or procure to be transferred to PRC JV certain machinery and equipment (spray painting production lines and power supply system) at a consideration (presently estimated to be around US\$2,000,000 (equivalent to approximately HK\$15,580,000)) to be agreed between VS Zhuhai and PRC JV; such amount to be regarded as a trade debt owed by PRC JV to VS Zhuhai and repayable to VS Zhuhai by PRC JV by instalments over a period of nine months from the establishment of PRC JV.

Given that VSII shall contribute US\$491,400 (equivalent to approximately HK\$3,828,006) to JVC by way of subscription of a total of 491,400 Shares and VS Zhuhai shall contribute US\$1,370,000 (equivalent to approximately HK\$10,672,300) towards the registered capital of PRC JV, the Group's total investment in the JVC Group will amount to approximately US\$1,861,400 (equivalent to approximately HK\$14,500,306). Since the total investment of the Group in the JVC Group represents approximately 9.7% of the market capitalisation (amounting to approximately HK\$148.9 million) of the Company as at the date of the Joint Venture Agreement, the establishment of the JVC Group pursuant to the Joint Venture Agreement constitutes a discloseable transaction for the Company under Rule 14.06(2) of the Listing Rules. Accordingly, the establishment of the JVC Group is subject to the relevant disclosure requirements under Rule 14.33 of the Listing Rules.

Further, the amount to be involved in the procurement of machinery and equipment by PRC JV from VS Zhuhai is currently estimated to be around US\$2,000,000 (equivalent to approximately HK\$15,580,000) which represents approximately 10.46% of the market capitalisation of the Company as at the date of the Joint Venture Agreement. Therefore, such procurement of machinery and equipment also constitutes a discloseable transaction for the Company under Rule 14.06(2) of the Listing Rules. Accordingly, the procurement of machinery and equipment by PRC JV from VS Zhuhai is subject to the relevant disclosure requirements under Rule 14.33 of the Listing Rules.

A circular containing, among others, details of the Joint Venture Agreement and the procurement of machinery and equipment by PRC JV from VS Zhuhai pursuant to the Joint Venture Agreement will be despatched to the shareholders of the Company as soon as practicable.

As completion of the Joint Venture Agreement is conditional and may not materialise, due caution and care should be exercised when dealing in the shares of the Company.

THE JOINT VENTURE AGREEMENT

Date: 8 September 2004
Parties: VSII, VS Zhuhai and Wako

To the Directors' best knowledge, information and belief having made all reasonable enquiry, Wako and its beneficial owners are independent of and not connected with the Directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates, as defined under the Listing Rules.

Under the Joint Venture Agreement, VSII and VS Zhuhai, wholly owned subsidiaries of the Company, agreed with Wako for the cooperation and joint investment in the PRC to set up production facilities for the manufacture of the Products in the PRC through their proposed joint investment in JVC, and JVC's investment in PRC JV.

Pursuant to the Joint Venture Agreement, VSII and Wako shall as soon as practicable after the signing of the Joint Venture Agreement incorporate or set up JVC and subscribe for 189 and 811 Shares of US\$1 each in the capital of JVC respectively for cash at par. At completion of the Joint Venture Agreement, VSII and Wako shall further subscribe for 491,211 and 2,107,789 Shares respectively, after which the entire issued share capital of JVC will be beneficially owned as to 18.9% by VSII and 81.1% by Wako.

The Joint Venture Agreement provides that as soon as practicable after its signing by the parties, JVC, Wako and VS Zhuhai shall enter into the PRC JV Agreement for the establishment of PRC JV and the total investment and the registered capital of PRC JV will be US\$5,000,000 (equivalent to approximately HK\$38,950,000) and US\$3,900,000 (equivalent to approximately HK\$30,381,000) respectively. The registered capital of PRC JV shall be contributed as to US\$2,500,000 (equivalent to approximately HK\$19,475,000) (64.1%) by JVC in cash, US\$30,000 (equivalent to approximately HK\$233,700) (0.8%) by Wako in cash and US\$1,370,000 (equivalent to approximately HK\$10,672,300) (35.1%) by VS Zhuhai by way of machinery and equipment. Under the Joint Venture Agreement and the PRC JV Agreement, there is no provision stipulating the amount of contribution by the investors of PRC JV towards the balance of US\$1,100,000 (equivalent to approximately HK\$8,569,000) between the total investment and the registered capital of PRC JV. The Company will comply with the relevant requirements of the Listing Rules (where required) if the investment by the Group in the JVC or PRC JVC increases.

The Group's total investment in the JVC Group will be funded out of internal resources of the Group.

The board of directors of JVC will consist of five directors, three of whom are to be nominated for appointment by Wako and two by VSII. One of the directors nominated by Wako shall be its chairman. As to the board of directors of PRC JV, it will comprise three directors, one director to be nominated by each of Wako, JVC and VS Zhuhai. The director nominated by JVC shall be the chairman of the board of directors of PRC JV.

The profits that may be distributed by JVC and PRC JV will be distributed to their shareholders according to their respective shareholdings in JVC and PRC JV.

The Directors are of the view that the terms of the Joint Venture Agreement are fair and reasonable and the entering into of the Joint Venture Agreement by the Group is in the interests of the Company and its shareholders are concerned.

THE COOPERATIONS

Technical supports

Under the Joint Venture Agreement, immediately after the setting up of JVC, Wako as licensor and PRC JV (JVC, Wako and VS Zhuhai signing for and on behalf of PRC JV in their capacity as its investors) as licensee shall enter into the Technical Licence and Assistance Agreement. Pursuant to the Technical Licence and Assistance Agreement, Wako has agreed to provide PRC JV with such technologies and technical knowhow for the manufacturing of the Products, and such other technological support and assistance in connection therewith. Immediately upon the establishment of PRC JV, its board of directors shall resolve (i) to assume all the rights, obligations and liabilities under the Technical Licence and Assistance Agreement and (ii) to authorise its legal representative to execute a formal version of the Technical Licence and Assistance Agreement with Wako.

Lease arrangement

Under the Joint Venture Agreement, immediately after the setting up of JVC, VS Zhuhai as landlord and PRC JV (JVC, Wako and VS Zhuhai signing for and on behalf of PRC JV in their capacity as its investors) as tenant shall enter into the Lease Agreement. Pursuant to the Lease Agreement, VS Zhuhai has agreed to lease factory premises in Zhuhai to PRC JV to house its processing plant at a monthly rental of US\$9,420 (equivalent to approximately HK\$73,382). Immediately upon the establishment of PRC JV, its board of directors shall resolve (i) to assume all the rights, obligations and liabilities under the Lease Agreement and (ii) to authorise its legal representative to execute a formal version of the Lease Agreement with VS Zhuhai.

Procurement of machinery and equipment

Under the Joint Venture Agreement, VS Zhuhai shall transfer or procure to be transferred to PRC JV certain machinery and equipment (spray painting production lines and power supply system) at a consideration (presently estimated to be around US\$2,000,000 (equivalent to approximately HK\$15,580,000) to be agreed between VS Zhuhai and PRC JV; such amount to be regarded as a trade debt owed by PRC JV to VS Zhuhai and repayable to VS Zhuhai by PRC JV in the following manner:

- (i) not less than one third (1/3) repayable within one month from the date of establishment of PRC JV;
- (ii) not less than another one third (1/3) repayable within six months from the date of establishment of PRC JV; and
- (iii) the remaining outstanding amount repayable within nine months from the date of establishment of PRC JV.

It is expected that a book gain of approximately HK\$5,275,000 will be recorded by VS Zhuhai from the above transfer of machinery and equipment and VS Zhuhai intends to use the proceeds to be generated from the transfer as its general working capital.

Consultation services

Pursuant to the Joint Venture Agreement, VSII and/or VS Zhuhai shall provide to PRC JV general consultation services regarding accounting, customs, tax and human resources matters at a monthly fee of US\$10,000 (equivalent to approximately HK\$77,900) for the first six (6) months after the establishment of PRC JV. After the initial six months, Wako, VSII and VS Zhuhai shall review the need for consultation services and decide on a new basis and contents thereof, if necessary.

DURATION AND CONDITIONS OF THE JOINT VENTURE AGREEMENT

The Joint Venture Agreement takes effect from the date of signing and shall, unless terminated in accordance with its terms, be valid for a period of 10 years or until completion of liquidation of JVC, whichever is earlier.

Completion of the Joint Venture Agreement is conditional upon:

- (a) the incorporation or, as the case may be, the setting up of JVC and the initial subscription of 189 and 811 Shares by VSII and Wako respectively;
- (b) (if required) all approvals, consents and acts required under the Listing Rules in connection with the setting up of the JVC Group under the Joint Venture Agreement being obtained, fulfilled or completed or, as the case may be, being waived by the Stock Exchange; and
- (c) the establishment of PRC JV in accordance with the PRC JV Agreement and the issuance of the business licence for PRC JV in accordance with the relevant laws and regulations of the PRC and local Zhuhai authorities and for this purpose, the date of issue of the business license of PRC JV shall be deemed to be the date of establishment of PRC JV.

Each of VSII and Wako shall use its reasonable endeavours to secure the satisfaction of the conditions above within six months from the date of the Joint Venture Agreement, failing which the Joint Venture Agreement shall automatically terminate, unless the Parties agree otherwise. If the Joint Venture Agreement so terminates, within ten (10) days from the termination of the Joint Venture Agreement, VSII shall transfer all the Shares held by it at par to Wako and any director(s) of JVC appointed by VSII shall resign as such director(s) and in the event PRC JV shall have been formed, VS Zhuhai shall transfer all its interest in the registered capital of PRC JV to Wako and any director(s) of PRC JV appointed by VS Zhuhai shall resign as such director(s).

As completion of the Joint Venture Agreement is conditional and may not materialise, due caution and care should be exercised when dealing in the shares of the Company.

REASONS FOR THE JOINT VENTURE AGREEMENT

The Group has been principally engaged in the production and sales of plastic moulded components and parts, assembling of electronic products and mould design and fabrication.

Wako is a subsidiary of Wako Co., Ltd. which is one of the major operators and developers in Japan of spray painting technology and has extensive experience in the spray painting of plastic parts and other components for the manufacture of electronic products using its special know-how and expertise in the spray painting technology.

The Directors expect that, with strong technological support from Wako, the JVC Group will generate considerable investment return for the Group in the medium term. The JVC Group will also solidify the integrated manufacturing solutions provided to the customers and enhance the competitiveness of the Group as a whole.

DISCLOSEABLE TRANSACTIONS

Given that VSII shall contribute US\$491,400 (equivalent to approximate HK\$3,828,006) to JVC by way of subscription of a total of 491,400 Shares and VS Zhuhai shall contribute US\$1,370,000 (equivalent to approximate HK\$10,672,300) towards the registered capital of PRC JV, the Group's total investment in the JVC Group will amount to approximately US\$1,861,400 (equivalent to approximately HK\$14,500,306). Since the total investment of the Group in the JVC Group represents approximately 9.7% of the market capitalisation (amounting to approximately HK\$148.9 million) of the Company as at the date of the Joint Venture Agreement, the establishment of the JVC Group pursuant to the Joint Venture Agreement constitutes a discloseable transaction for the Company under Rule 14.06(2) of the Listing Rules. Accordingly, the establishment of the JVC Group is subject to the relevant disclosure requirements under Rule 14.33 of the Listing Rules.

Further, the amount to be involved in the procurement of machinery and equipment by PRC JV from VS Zhuhai is currently estimated to be around US\$2,000,000 (equivalent to approximately HK\$15,580,000) which represents approximately 10.46% of the market capitalisation of the Company as at the date of the Joint Venture Agreement. Therefore, such procurement of machinery and equipment also constitutes a discloseable transaction for the Company under Rule 14.06(2) of the Listing Rules. Accordingly, the procurement of machinery and equipment by PRC JV from VS Zhuhai is subject to the relevant disclosure requirements under Rule 14.33 of the Listing Rules. Should the procurement of machinery and equipment constitute a major transaction for the Company under Chapter 14 of the Listing Rules, the Company will comply with the necessary requirements of Chapter 14 of the Listing Rules.

A circular containing, among others, details of the Joint Venture Agreement and the procurement of machinery and equipment by PRC JV from VS Zhuhai pursuant to the Joint Venture Agreement will be despatched to the shareholders of the Company as soon as practicable.

DEFINITIONS

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

“Company”	VS. International Group Limited 威誠國際集團有限公司, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of The Stock Exchange of Hong Kong Limited
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Joint Venture Agreement”	the conditional joint venture agreement dated 8 September 2004 and entered into between VSII, VS Zhuhai and Wako for the cooperation and joint investment in the PRC for the manufacture of, among other things, the Products and the establishment of JVC and PRC JV
“JVC”	Wako VS Nano Technologies (Hong Kong) Co., Ltd.和宏仕商威士茂納米科技(香港)有限公司, a company incorporated under the laws of Hong Kong by VSII and Wako pursuant to the Joint Venture Agreement
“JVC Group”	JVC and PRC JV
“Lease Agreement”	the lease agreement entered into between VS Zhuhai as landlord and PRC JV (JVC, Wako and VS Zhuhai signing for and on behalf of PRC JV in their capacity as its investors) as tenant for the leasing by VS Zhuhai to PRC JV of factory premises in Zhuhai to house its processing plant

V.S. International Group Limited

“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PRC”	the People’s Republic of China
“PRC JV”	和宏住商威士茂納米科技(珠海)有限公司 Wako VS Nano Technologies (Zhuhai) Co., Ltd., an equity joint venture enterprise to be set up in Zhuhai, the PRC by JVC, Wako and VS Zhuhai
“PRC JV Agreement”	the joint venture contract entered into between JVC, Wako and VS Zhuhai for the establishment of PRC JV
“Products”	plastic parts and components for electronic products using spray painting technology
“Shares”	shares of US\$1 each in the share capital of JVC
“Technical License and Assistance Agreement”	the technical license and assistance agreement entered into between Wako as licensor and PRC JV (JVC, Wako and VS Zhuhai signing for and on behalf of PRC JV in their capacity as its investors) as licensee for the provision by Wako to PRC JV of such technologies and technical know-how for the manufacturing of the Products, and such other technological support and assistance in connection therewith
“US\$”	dollars of the United States of America, the lawful currency of the United States of America
“VSI”	V.S. International Industry Limited 威誠國際工業有限公司, a company incorporated under the laws of the British Virgin Islands and a wholly owned subsidiary of the Company
“VS Zhuhai”	威士茂科技工業園(珠海)有限公司 V.S. Technology Industry Park (Zhuhai) Co., Ltd., a wholly foreign owned enterprise established in the PRC and a wholly owned subsidiary of the Company
“Wako”	Wako (Hong Kong) Co., Limited, a company incorporated in Hong Kong and owned as to 99.99% by Wako Co., Ltd. and 0.01% by a director of Wako Co., Ltd.
“%”	per cent.

List of all Directors of the Company 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

Non-executive Director:

Mr Gan Tiong Sia

Note: The translation from US\$ into HK\$ in this announcement is based on an exchange rate of US\$1 to HK\$7.79.

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

Zhuhai, the PRC, 15 September 2004

Please also refer to the published version of this announcement in The Standard dated 16 September 2004.