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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**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 stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in V.S. International Group Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the 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.**

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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)*

#### **ONGOING CONNECTED TRANSACTIONS**

##### **LEASE AGREEMENT**

**Independent Financial Adviser**

**Watterson Asia Limited**

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A letter from the Board is set forth on pages 4 to 11 of this circular, a letter from the Independent Directors is set forth on page 12 of this circular and a letter from Watterson Asia is set forth on pages 13 to 15 of this circular.

The EGM will be held at Salon II, Mezzanine Floor, Grand Hyatt Hong Kong, 1 Harbour Road, Wanchai, Hong Kong at 2:00 p.m. on Monday, January 12, 2004. A notice convening the EGM and the proxy form, which were despatched to the Shareholders on December 20, 2003, are set forth on pages 24 to 25 (for information purpose only) of this circular.

**If you are unable to attend the EGM, please complete and return the proxy form in accordance with the instructions printed thereon as soon as possible and in any event no later than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof to the office of the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited of Room 1901-1905, 19th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.**

**Completion and return of the proxy form shall not preclude you from attending and voting at the EGM or any adjournment thereof if you so wish.**

December 31, 2003

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## TABLE OF CONTENTS

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	<i>Page</i>
<b>Timetable</b> .....	ii
<b>Definitions</b> .....	1
<b>Letter from the Board</b>	
1. Introduction .....	4
2. The Lease Agreement .....	4
3. Reasons and benefits for entering into the Lease Agreement .....	8
4. Ongoing Connected Transactions .....	9
5. General information .....	11
6. Recommendation of the Independent Directors .....	11
7. EGM .....	11
<b>Letter from the Independent Directors</b> .....	12
<b>Letter from Watterson Asia</b> .....	13
<b>Appendix I: General information of the Group</b> .....	16
<b>Appendix II: Notice of EGM and proxy form</b> .....	24

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## TIMETABLE

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Date of announcement on the Ongoing Connected Transactions .....	December 11, 2003
Date of notice of the EGM .....	December 20, 2003
Date of announcement upon obtaining completion reports for the completed residential units comprising the Premises by VS Management .....	December 30, 2003
Date of this circular .....	December 31, 2003
Date of the EGM .....	2:00 p.m. on January 12, 2004 (expected)
Effective Date .....	January 15, 2004 (expected)

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## DEFINITIONS

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*In this circular, unless the context requires otherwise, the use of capitalized terms shall have the following meanings:–*

<b>“Board”</b>	the board of Directors;
<b>“Cap Amounts”</b>	the maximum amounts of Rent and management fee for the Premises payable by VS Zhuhai to VS Management under the Lease Agreement for each of the three financial years ending July 31, 2006;
<b>“Company”</b>	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, which is listed on the main board of the Stock Exchange;
<b>“Director(s)”</b>	the director(s) of the Company, including the Independent Directors;
<b>“Effective Date”</b>	the commencement date of the Lease Agreement, being January 15, 2004;
<b>“EGM”</b>	the extraordinary general meeting of the Company to be held at Salon II, Mezzanine Floor, Grand Hyatt Hong Kong, 1 Harbour Road, Wanchai, Hong Kong at 2:00 p.m. on Monday, January 12, 2004 to consider and, if thought fit, approve the Lease Agreement and all other related matters;
<b>“Group”</b>	the Company and its subsidiaries;
<b>“HK\$”</b>	Hong Kong dollars, the lawful currency of Hong Kong;
<b>“Hong Kong”</b>	the Hong Kong Special Administrative Region of the PRC;
<b>“Independent Director(s)”</b>	Messrs. Diong Tai Pew and Cheung Kwan Hung, Anthony being the independent non-executive Directors;
<b>“Independent Shareholder(s)”</b>	all Shareholder(s) other than VVS, Messrs. Beh Kim Ling, Gan Sem Yam and Gan Tiong Sia and Madam Gan Chu Cheng;
<b>“Land”</b>	a parcel of land of approximately 130,007.99 sq.m. located at western side of Jinsha Road, Bei Sha Village, Jinding Town, Xiang Zhou District, Zhuhai, Guangdong Province, the PRC;
<b>“Latest Practicable Date”</b>	December 27, 2003, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information in this circular;
<b>“Lease Agreement”</b>	the lease agreement dated December 11, 2003 which was entered into between VS Management and VS Zhuhai in respect of leasing the residential units comprising the Premises during the Term;

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## DEFINITIONS

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<b>“Listing Rules”</b>	The Rules Governing the Listing of Securities on the Stock Exchange;
<b>“Ongoing Connected Transactions”</b>	the ongoing connected transactions of the Company following the entering into the Lease Agreement between VS Zhuhai as lessee and VS Management as lessor for leasing the residential units comprising the Premises and the provision of management services for the residential units comprising the Premises throughout the Term;
<b>“Option Deed”</b>	the option deed dated January 20, 2002 which was entered into between VS Investment, EVS Co., Ltd., Mr. Beh Kim Ling, Madam Gan Chu Cheng and Mr. Gan Sem Yam whereby VS Investment granted to each of EVS Co., Ltd., Mr. Beh Kim Ling, Madam Gan Chu Cheng and Mr. Gan Sem Yam options to subscribe for 7,199,990 shares, 3,599,995 shares, 3,599,995 shares and 3,599,995 shares respectively of HK\$1.00 each in the share capital of VS Investment at an exercise price of HK\$1.00 per share, which are exercisable at any time during a period of 36 months from and including February 8, 2002;
<b>“PRC”</b>	the People’s Republic of China which, for the purpose of this circular, excludes Hong Kong, Macau Special Administrative Region and Taiwan;
<b>“Premises”</b>	a residential complex comprising 26 residential buildings and other facilities to be erected on the Land by VS Management, which will be completed in different stages up to August 2006;
<b>“Rent”</b>	the annual rental payable by VS Zhuhai to VS Management for the residential units comprising the Premises;
<b>“RM”</b>	Malaysian ringgit, the lawful currency of Malaysia;
<b>“RMB”</b>	Renminbi yuan, the lawful currency of the PRC;
<b>“SFO”</b>	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
<b>“Share(s)”</b>	ordinary share(s) of HK\$0.05 each in the share capital of the Company;
<b>“Shareholder(s)”</b>	shareholder(s) of the Company;
<b>“sq.m.”</b>	square metre;
<b>“Stock Exchange”</b>	The Stock Exchange of Hong Kong Limited;
<b>“Term”</b>	the term of the Lease Agreement of nine years commencing from January 15, 2004;

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## DEFINITIONS

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“VSA(HK)”	VSA Holding Hong Kong Co., Limited (威士茂安商住控股香港有限公司), a company incorporated under the laws of Hong Kong and a 71%-owned indirect subsidiary of the Company;
“VS Investment”	V.S. Investment Holdings Limited (威城投資控股有限公司*), a company incorporated under the laws of the British Virgin Islands, which is beneficially owned as to approximately 99.99995% by the Company, as to approximately 0.00003% in aggregate by Messrs. Beh Kim Ling and Gan Sem Yam and Madam Gan Chu Cheng and as to approximately 0.00002% by EVS Co., Ltd.;
“VSII”	V.S. International Industry Limited (威鉞國際工業有限公司*), a company incorporated under the laws of the British Virgin Islands and a wholly-owned subsidiary of the Company;
“VS Management”	V.S. (Zhuhai) Management Co., Ltd.* (威士茂(珠海)管理有限公司), a wholly foreign-owned enterprise established on December 7, 2001 under the laws of the PRC and is wholly owned by Mr. Beh Kim Ling, an executive Director, which is a connected person (as such term is defined under the Listing Rules) of the Company;
“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 foreign-owned enterprise established on July 27, 2000 under the laws of the PRC and a wholly-owned subsidiary of the Company;
“VVS”	VVS Co., Ltd., being a controlling shareholder (as such term is defined under the Listing Rules) of the Company holding approximately 51.98% of the entire issued share capital of the Company, the entire issued share capital of which is registered in the name of and beneficially owned as to 87.272% by VS Industry Berhad and 3.182% by each of Messrs. Beh Kim Ling, Gan Sem Yam and Gan Tiong Sia and Madam Gan Chu Cheng, all of them are Directors;
“Watterson Asia”	Watterson Asia Limited, a deemed licensing corporation under the SFO, and the independent financial adviser to the Independent Directors in respect of the Lease Agreement; and
“%”	per cent.

*For the purpose of this circular, translations of HK\$ into RMB or vice versa have been calculated by using an exchange rate of HK\$1.00 = RMB 1.06*

\* For identification only

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LETTER FROM THE BOARD

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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)*

***Executive Directors:–***

Mr Beh Kim Ling  
Madam Gan Chu Cheng  
Mr Gan Sem Yam  
Mr Zhang Pei Yu

***Non-executive Director:–***

Mr Gan Tiong Sia

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

Mr Diong Tai Pew  
Mr Cheung Kwan Hung, Anthony

***Registered office:–***

Century Yard  
Cricket Square  
Hutchins Drive  
P.O. Box 2681GT  
George Town  
Grand Cayman  
British West Indies

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

4106, 41st Floor  
Office Tower  
Convention Plaza  
1 Harbour Road  
Wanchai  
Hong Kong

December 31, 2003

*To the Shareholders:–*

Dear Sirs,

**ONGOING CONNECTED TRANSACTIONS  
LEASE AGREEMENT**

**1. INTRODUCTION**

Reference is made to the Company's announcement issued on December 11, 2003 on the Ongoing Connected Transactions. The purpose of this circular is to provide the Shareholders with further information on the Lease Agreement, the recommendation of the Independent Directors and the opinion of Watterson Asia on the Lease Agreement to the Independent Directors.

**2. THE LEASE AGREEMENT**

VS Zhuhai entered into the Lease Agreement with VS Management for leasing the residential units comprising the Premises throughout the Term. The residential units comprising the Premises will be completed in different stages up to August 2006, and VS Zhuhai has agreed to lease all such residential units throughout the Term, subject to review for each six-month period, to satisfy its own staff accommodation requirement. VS Zhuhai will pay Rent and management fee in relation to the management service provided by VS Management for the residential units comprising the Premises.

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## LETTER FROM THE BOARD

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The principal terms of the Lease Agreement are as follows:–

### **Date of the Lease Agreement**

December 11, 2003

### **Parties to the Lease Agreement**

VS Management (*as lessor*)

VS Zhuhai (*as lessee*)

### **Conditions of the Lease Agreement**

The Lease Agreement is conditional upon the approval of the Independent Shareholders at the EGM and the issuance to VS Management completion reports for the four existing completed residential buildings comprising the Premises. VS Management has obtained the completion reports in respect of the four existing completed residential buildings comprising the Premises, and VS Zhuhai received all of these completion reports on December 23, 2003. Hence, the Lease Agreement is only subject to the approval of the Independent Shareholders at the EGM.

### **Premises**

A project developed by VS Management of a residential complex comprises 26 buildings and other facilities to be erected on the Land. The entire development is expected to be completed in different stages up to August 2006. As at the Latest Practicable Date, four residential buildings have been completed. The residential units comprising the Premises will be taken up by VS Zhuhai under the Lease Agreement according to the table set forth under “Rent” below throughout the Term, subject to review for each six-month period.

### **Land**

VS Management acquired the Land for a proposed development of the Premises. The Premises are to be used by VS Zhuhai as its staff quarters. Reasons and benefits for entering into the Lease Agreement by VS Zhuhai are set forth under “Reasons and benefits for entering into the Lease Agreement” below.

### **Term**

A period of nine years commencing from the Effective Date subject to an early termination right that is exercisable by VS Zhuhai for each three-year period, i.e. January 14, 2007 and January 14, 2010. The continuation of the Lease Agreement beyond July 31, 2006 will be subject to strict compliance with the Listing Rules which may require the Company to seek a prior approval from the then Independent Shareholders.

If the approval from the then Independent Shareholders is required, any proposed alteration to the terms of the Lease Agreement, if any, and the adjusted rental will be included in the announcement and the Shareholders’ circular to be issued by the Company. In the event that the then Independent Shareholders disapprove the continuation of the Lease Agreement at that time, the Lease Agreement will be terminated absolutely. VS Management will be entitled to terminate the Lease Agreement only when VS Zhuhai is no longer part of the Group.



## LETTER FROM THE BOARD

### Rent

The following table sets forth, *inter alia*, the budgeted maximum leased area and the budgeted maximum rent for the period from the Effective Date to July 31, 2004 and for each of the two financial years ending July 31, 2006:–

	From the Effective Date to July 31, 2004	Financial year ending July 31, 2005	July 31, 2006
Budgeted maximum leased area (in sq.m.) (Note 1)	22,676.72	42,795.26 (first six months)	67,556.54 (first six months)
		58,271.06 (second six months)	90,673.58 (second six months)
Estimated number of residential buildings completed comprising the Premises (Note 2)	6	15	24
Budgeted maximum number of staff expected to be employed by VS Zhuhai and living in the Premises per month (Note 1)	3,168	5,856 (first six month)	9,216 (first six month)
		7,776 (second six months)	10,836 (second six months)
Rent per sq.m. for each month (RMB/sq.m.) (Note 3)	18	18	18
Budgeted maximum Rent during the relevant period/financial year (RMB)	2,653,176	10,915,163	17,088,853
HK\$ equivalent	2,502,996	10,297,324	16,121,559
Percentage to the audited consolidated net tangible assets of the Group as at 31 July 2003	0.65	2.69	4.21

Notes:–

1. The budgeted maximum leased area is based on the budgeted maximum number of staff expected to be employed by VS Zhuhai which is in turn based on a schedule of increasing production facilities at VS Zhuhai in terms of numbers of injection machines and assembly lines.
2. The remaining two residential buildings will be completed in or about August 2006.
3. The level of rent per sq.m. for each month has been determined by reference to the rent level of comparable hostel and housing estate in Zhuhai, the PRC, based on the information obtained by the Group.

### Payment and adjustment to the Rent

The Rent will be payable by cash in advance on the date of commencement of each six-month period throughout the Term (except for the period from the Effective Date to July 31, 2004 and the period between August 1, 2006 and January 14, 2007 which will be payable on the Effective Date and August 1, 2006 respectively). The amount of each of all these payments is subject to the adjustments below.

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## LETTER FROM THE BOARD

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Within a period of not more than 10 days prior to each six-month period during the Term, both VS Zhuhai and VS Management will discuss and assess the latest requirements for the leased area and the availability of the residential units comprising the Premises.

If the actual area proposed to be leased by VS Zhuhai (according to its production requirements) in a particular six-month period is less than that budgeted maximum leased area as set forth in the table under "Rent" above or if there is any delay on the part of VS Management in delivering the exclusive possession of the required completed residential units comprising the Premises, VS Zhuhai will be entitled to request for adjustment to the Rent for the relevant six-month period on a pro-rata basis.

In addition, VS Zhuhai will be entitled to request for further adjustments to Rent for each three-year period throughout the Term. The first and the second adjustments shall be effective from January 15, 2007 and January 15, 2010 respectively. Such adjustments will be made by reference to the then fair market rental of comparable premises as determined by an independent property valuer that shall not be earlier than two months from the relevant effective dates.

The Directors are of the view that the above payment and adjustment arrangements will not only reduce the administrative cost to be incurred by VS Zhuhai in terms of appraising and monitoring the monthly movements of staff, the occupancy rate of staff quarters and re-negotiating the rent with VS Management, but also allow VS Zhuhai to adjust the amount of rental payable in light of its actual staff accommodation requirements and the actual completion time of the residential units comprising the Premises for each six-month period.

### **Management fee**

The management fee payable on the Premises is RMB1.3 per sq.m. for each month which is not included in the Rent. VS Zhuhai will pay the management fee by cash in advance on the date of commencement for each six-month period throughout the Term (except for the period from the Effective Date to July 31, 2004 and the period between August 1, 2006 and January 14, 2007 which will be payable on the Effective Date and August 1, 2006 respectively). VS Zhuhai will be entitled to request for adjustments to the management fee at the same time as the Rent for each three-year period throughout the Term. Such adjustments will be made by reference to the then fair market level of comparable premises as determined by an independent property valuer that shall not be earlier than two months from the relevant effective dates.

### **Other material terms**

- (a) VS Management will be responsible for completing all registration and filing procedures in respect of the Lease Agreement under the applicable laws and regulations.
- (b) VS Management will be responsible for the management of the Premises as a whole throughout the Term. This will include repairing the electrical installations, keeping the sanitary and water apparatus in good, clean and tenantable condition, paying all reasonable costs in replacing broken and damaged windows, cleaning drains and pipes and taking reasonable precautions to protect the Premises from being damaged by storm or typhoon or the like.
- (c) VS Zhuhai will be responsible for payment of all utility charges, such as electricity, water and gas which shall be incurred from time to time.
- (d) VS Management will maintain the Premises as a whole in a good repair and tenantable condition.

## LETTER FROM THE BOARD

### 3. REASONS AND BENEFITS FOR ENTERING INTO THE LEASE AGREEMENT

The Lease Agreement is for the Term subject to an early termination right that is exercisable by VS Zhuhai for each three-year period, i.e. January 14, 2007 and January 14, 2010. The Directors consider that VS Zhuhai requires such staff quarters because of the following reasons:–

#### Continuous business expansion

VS Zhuhai is principally engaged in the manufacturing, assembling and selling of plastic moulded products and electronic products, parts and components. VS Zhuhai operates the Group's principal production facilities in Jinding Town, Xiang Zhou District, Zhuhai, Guangdong Province, the PRC.

With the existing employment of approximately 4,000 employees, VS Zhuhai either assigns its employees to a berth in a hostel that accommodates more than 10 persons to a room or reimburses its employees with housing allowance. Under the existing arrangement, VS Zhuhai leases nine staff quarters in three major locations in Jinding Town, Xiang Zhou District, Zhuhai, Guangdong Province, the PRC from independent third parties with an average monthly rental for each sq.m. within the range between RMB6.74 to RMB17.15.

Although the amount of Rent is expected to be higher than the existing levels, the Directors are of the view that the existing staff quarters are not providing suitable and acceptable living environment for its employees. The existing staff quarters are not built and designed to accommodate the existing number of employees of VS Zhuhai. The safety and the management of the employees are also a concern to the Directors in certain hostels due to their locations. In addition, the existing staff quarters are not very close to the production site of VS Zhuhai, and VS Zhuhai is required to pay all the utilities and transportation costs. Against this background, the Directors consider that there is a need for VS Zhuhai to provide its employees with centralized and well-managed accommodation for its business expansion. VS Zhuhai will not renew all the leases for the existing staff quarters upon their expiration and no penalty is expected to be imposed on VS Zhuhai.

The Directors anticipate that, with the anticipated expansion of the production facilities in VS Zhuhai, in terms of increasing number of injection machines and assembly lines, during the two financial years ending July 31, 2005, the total number of employees employed by VS Zhuhai is expected to increase to approximately 10,000. The following table sets forth the current plan of VS Zhuhai and the expected number of employees up to the financial year ending July 31, 2005:–

	As at the Latest Practicable Date		Financial year ending			
			July 31, 2004		July 31, 2005	
	Number of machines/ production lines	Average number of employees	Estimated number of machines/ production lines	Estimated number of employees	Estimated number of machines/ production lines	Estimated number of employees
Injection department	291	2,804	500	4,818	560	6,745
Assembly department	20	621	20	1,242	20	2,484
Others		449		750		770
<b>Total:</b>		<b>3,874</b>		<b>6,810</b>		<b>9,999</b>

In light of the above, the Directors expect that there will be a shortage of suitable and adjacent premises to accommodate its employees and as such, the Premises provide a long-term supply of centralized and well-managed accommodation for the employees of VS Zhuhai.

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## LETTER FROM THE BOARD

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The business licence of VS Zhuhai is for a period of 50 years and the Directors anticipate that VS Zhuhai will be one of the major production facilities of the Group. On this basis, the Directors are of the view that the Lease Agreement is not for an exceptionally long period of time.

### **Improved employees' welfare**

The Directors believe that by providing a comfortable living environment to its employees, the Group's competitiveness can be enhanced by increasing the employees' morale and performance. This is particularly important because of the increasing emphasis on employees' welfare by overseas customers. Hence, the Directors have decided to improve the living environment of its employees by providing apartments to them, and the Premises provide such living environment to the employees of VS Zhuhai.

### **Proximity of the Premises**

The existing staff quarters of VS Zhuhai are situated at different locations that are approximately one kilometer away from the production facilities operated by VS Zhuhai, whereas the site of the Premises is situated within walking distance from VS Zhuhai. As such, living in the Premises will not only give the employees great convenience, it will also reduce the transportation costs currently incurred by VS Zhuhai for arranging employees coming to work.

### **No capital expenditure required**

The entering into the Lease Agreement provides an opportunity to VS Zhuhai to enjoy the benefit of having centralized staff quarters without incurring substantial amount of capital expenditure, which may strain additional financial resources of the Group in light of its continuous business expansion. The payment of Rent will be funded by internally generated financial resources of the Group. The Lease Agreement also provides income for VS Management to continue developing the Premises for the purpose of supplying staff quarters to VS Zhuhai. None of the members of the Group has made any commitment to the development of the Premises.

## **4. ONGOING CONNECTED TRANSACTIONS**

### **General information**

VS Zhuhai is a wholly-owned subsidiary of the Company and VS Management is wholly owned by Mr. Beh Kim Ling, an executive Director. As such, VS Management is a connected person (as such term is defined under the Listing Rules) of the Company and the entering into the Lease Agreement constitutes a connected transaction (as such term is defined under the Listing Rules) for the Company.

The Directors consider that the Lease Agreement was entered into in the ordinary and usual course of business of the Group and on normal commercial terms that is fair and reasonable so far as the Shareholders are concerned.

### **Waiver from strict compliance with the Listing Rules**

As the amount of Rent commencing from the financial year ending July 31, 2006 is expected to be more than 3% of the latest audited consolidated net tangible assets of the Group of HK\$382,672,000 as at July 31, 2003, the Lease Agreement will be conditional upon the approval of the Independent Shareholders at the EGM, as required by Rule 14.26 of the Listing Rules. **VVS, Messrs. Beh Kim Ling, Gan Sem Yam and Gan Tiong Sia and Madam Gan Chu Cheng will abstain from voting at the EGM.**

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## LETTER FROM THE BOARD

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The Lease Agreement also constitutes ongoing connected transactions for the Company. Pursuant to Rule 14.26 of the Listing Rules, the Company is required to obtain the approval of the Independent Shareholders every time such transactions occur. As the Lease Agreement will be carried out in the ordinary course of business of the Group, the Directors consider that strict compliance with the announcement and the Independent Shareholders' approval requirements under Rule 14.26 of the Listing Rules would be impractical and unduly burdensome for the Company. In this connection, the Company has applied for a waiver from strict compliance with the relevant requirements under Rule 14.26 of the Listing Rules for each of the three financial years ending July 31, 2006, subject to the following conditions:–

- (a) that the Ongoing Connected Transactions shall be:–
  - (i) entered into by the Company in the ordinary and usual course of its business;
  - (ii) conducted either (A) on normal commercial terms (which expression will be applied by reference to transactions of a similar nature and to be made by similar entities) or (B) (where there is no available comparison) on terms that are fair and reasonable so far as the Shareholders are concerned; and
  - (iii) entered into either (A) in accordance with the terms of the Lease Agreement governing the Ongoing Connected Transactions or (B) (where there is no such Lease Agreement) on terms no less favourable than those available to or from independent third parties;
- (b) the aggregate amount of the Ongoing Connected Transactions for each of the three financial years ending July 31, 2006 shall not exceed the Cap Amounts of HK\$2,684,000, HK\$11,042,000 and HK\$17,286,000 respectively;
- (c) the Independent Directors shall review the Ongoing Connected Transactions annually and confirm in the Company's next annual report that this was conducted in the manner as stated in paragraphs (a) and (b) above;
- (d) the Company's auditors shall review the Ongoing Connected Transactions annually and confirm in a letter (the "Letter") to the Directors (a copy of which shall be provided to the Listing Division of the Stock Exchange) stating whether:–
  - (i) the Ongoing Connected Transactions have received the approval of the Board;
  - (ii) the Ongoing Connected Transactions are in accordance with the pricing policies as stated in the Company's financial statements;
  - (iii) the Ongoing Connected Transactions have been entered into in accordance with the terms of the Lease Agreement governing the Ongoing Connected Transactions or, if there is no such Lease Agreement, on terms no less favourable than those available to or from independent third parties; and
  - (iv) the Cap Amounts have been exceeded.

Where, for whatever reason, the auditors decline to accept the engagement or are unable to provide the Letter, the Directors shall contact the Listing Division of the Stock Exchange immediately;

- (e) details of the Ongoing Connected Transactions in each financial year shall be disclosed as required under Rule 14.25(1)(A) to (D) of the Listing Rules in the annual report of the Company for that financial year together with a statement of the opinion of the Independent Directors referred to in paragraphs (c) above; and

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## LETTER FROM THE BOARD

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- (f) the Company and VS Management shall provide to the Stock Exchange an undertaking that, for so long as the Shares are listed on the Stock Exchange, it will provide the Company's auditors with full access to its relevant records for the purpose of the auditors' review of the Ongoing Connected Transactions referred to in paragraph (d) above.

The Cap Amounts of HK\$2,684,000, HK\$11,042,000 and HK\$17,286,000 mentioned in paragraph (b) above represent approximately 0.7%, 2.9% and 4.5% of the latest audited consolidated net tangible assets of the Group of HK\$382,672,000 as at July 31, 2003.

If any term of the Ongoing Connected Transactions as mentioned above is altered or if the Company enters into any new agreements with any connected persons (as such term is defined under the Listing Rules) in the future, the Company will comply with the provisions of Chapter 14 of the Listing Rules governing the Ongoing Connected Transactions unless it applies for and obtains a separate waiver from the Stock Exchange.

In the event of any future amendments to the Listing Rules imposing more stringent requirements than as at the date of this waiver application on transactions of the kind to which the Ongoing Connected Transactions belong including, but not limited to, a requirement that such transactions be made conditional on approval by the Independent Shareholders, the Company must take immediate steps to ensure compliance with such requirements within a reasonable time.

### 5. GENERAL INFORMATION

The Group has been principally engaged in the business of manufacturing and sales of plastic moulded products and parts, assembling of electronic products as well as design and fabrication of moulds.

### 6. RECOMMENDATION OF THE INDEPENDENT DIRECTORS

Your attention is drawn to the recommendation by the Independent Directors and the opinion of Watterson Asia, the texts of these are set forth on page 12 and on pages 13 to 15 respectively of this circular. The Independent Directors are of the view that, having considered the opinion of Watterson Asia, the terms and conditions of the Lease Agreement are fair and reasonable so far as the Shareholders are concerned and recommend you to vote for the Lease Agreement.

### 7. EGM

The EGM will be held at Salon II, Mezzanine Floor, Grand Hyatt Hong Kong, 1 Harbour Road, Wanchai, Hong Kong at 2:00 p.m. on Monday, January 12, 2004. A notice convening the EGM and the proxy form, which were despatched to the Shareholders on December 20, 2003, are set forth on pages 24 to 25 (for information purpose only) of this circular.

If you are unable to attend the EGM, please complete and return the proxy form in accordance with the instructions printed thereon as soon as possible and in any event no later than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof to the office of the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited of Room 1901-1905, 19th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

Completion and return of the proxy form shall not preclude you from attending and voting at the EGM or any adjournment thereof if you so wish.

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

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## LETTER FROM THE INDEPENDENT DIRECTORS

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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)*

December 31, 2003

*To the Independent Shareholders:—*

Dear Sir or Madam,

We refer to the Company's announcement dated December 11, 2003 on the Lease Agreement. Particulars of the Lease Agreement are set out in the "Letter from the Board" set forth on pages 4 to 11 of the circular of the Company dated December 31, 2003 to the Shareholders (the "**Circular**"), of which this letter forms part. Your attention is drawn to the details of the Lease Agreement and the reasons and benefits of entering into the Lease Agreement therein contained.

Unless the context requires otherwise, the use of capitalised terms in this letter shall have the same meanings as defined in the Circular.

We, as the Independent Directors, have considered the terms of the Lease Agreement. Our role is to advise the Independent Shareholders as to whether the terms and conditions of the Lease Agreement are fair and reasonable so far as the Shareholders are concerned. We have considered the opinion expressed by Watterson Asia on the Lease Agreement. Your attention is drawn to the "Letter from Watterson Asia" set forth on pages 13 to 15 of the Circular. We concur with the opinion of Watterson Asia that the terms and conditions of the Lease Agreement are fair and reasonable so far as the Shareholders are concerned. Hence, we recommend you to vote for the Lease Agreement at the EGM.

Yours faithfully,

**Diong Tai Pew    Cheung Kwan Hung, Anthony**  
*Independent Directors*  
**V.S. International Group Limited**



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## LETTER FROM WATTERSON ASIA

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*The following is the text of a letter from Watterson Asia for the purpose of incorporation in this circular in connection with its opinion on the Ongoing Connected Transactions:—*

### **Watterson Asia Limited**

5th Floor, 8 Queen's Road Central, Hong Kong  
Tel: (852) 2525 1990  
Fax: (852) 2526 1990

December 31, 2003

The Independent Directors  
V.S. International Group Limited  
4106, 41st Floor  
Office Tower  
Convention Plaza  
1 Harbour Road  
Wanchai  
Hong Kong

Dear Sirs,

### **ONGOING CONNECTED TRANSACTIONS LEASE AGREEMENT**

We refer to our appointment as independent financial adviser to the Independent Directors in relation to the Ongoing Connected Transactions involving the entering into a lease agreement by VS Zhuhai, a wholly-owned subsidiary of the Company, with VS Management, a connected person under the Listing Rules. Our role as independent financial adviser is to give our opinion as to whether the terms of the Lease Agreement are fair and reasonable to the Independent Shareholders. Details of the Lease Agreement and the background leading to the entering of this agreement are set forth in the letter from the Board contained in the circular dated December 31, 2003 (the “**Document**”) to the Shareholders. Our letter forms part of the Document and capitalized terms used in this letter have the same meanings as defined in the Document.

In putting forth our opinion, we have relied on the Company to provide us with all relevant information including the Lease Agreement. We have also considered the management budgets in respect of the Group's manpower requirements in Zhuhai for the years up to July 31, 2006, upon which the expected leased area of the staff quarters will be determined. We have assumed such representations were accurate at the time they were made and continue to be so as at the date of the Document. In considering the fairness and reasonableness of the terms of the Lease Agreement, we have consulted the opinion of Midland Surveyors Limited, an independent property valuer, on rent and management fee of comparable premises in Zhuhai. 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 is misleading. We have not, however, for the purpose of this exercise, conducted any form of detailed investigation into the businesses or affairs of the Group.

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

In arriving at our opinion on the Lease Agreement, we have taken into consideration the following factors and reasons:



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## LETTER FROM WATTERSON ASIA

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### **Background to the Lease Agreement**

The Group is principally engaged in the manufacture and sales of plastic injection moulded products 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. At present, the Group's manufacturing operations are located in Zhuhai, Shenzhen and Qingdao in the PRC where the Group currently employs approximately 4,000, 2,500 and 1,100 employees respectively. To cater for anticipated demand for increased businesses, it is currently expected that the Group's production in its Zhuhai facilities will increase significantly in the coming years, thus the need to employ more employees.

Presently, the Group rents staff quarters in various locations in the Jinding Township in Zhuhai. These locations are all scattered and are far away from the industrial park where the Group's production is located. The current scattered staff hostels pose difficulty in terms of management and increased transportation costs to and from the factory. Furthermore, it is becoming increasingly difficult to lease suitable hostels to house a growing number of employees in Zhuhai. That being the case, we believe it is beneficial to the Group to lease from VS Management the Premises located beside and within walking distance from the industrial park of VS Zhuhai. The Premises enables the Group to house all its employees under one roof and bring about an upgrade in its employees' living environment, from the current "masses accommodation" hostels where a common room houses up to 10 persons to a more livable "apartment type" hostel where 4 persons are assigned to a one-room unit. We are also of the view that providing a more comfortable living environment to employees enables the Group to increase its competitiveness by improving staff morale and work performance.

### **Terms of the Lease Agreement**

Under the Lease Agreement, Rent is payable by cash in advance on the date of commencement for each six-month period from January 15, 2004 to December 31, 2012 based on the area of the Premises agreed to be rented by VS Zhuhai prior to each six-month period during the Term. For the first three years to July 31, 2006, monthly rent is fixed at RMB18 per sq. m. Under the Lease Agreement, a monthly management fee of RMB1.3 per sq. m. is also payable to VS Management and that VS Zhuhai is entitled to request adjustments to the management fee for each of the three-year period under the Term. Such adjustments, if made, will be by reference to fair market management fee of comparable premises as determined by an independent property valuer.

We understand the amount of the half-yearly rent payable to VS Management depends on the area of the Premises leased by VS Zhuhai which in turn depends on the number of workers to be employed during the period. It is currently expected that the number of workers will increase from the current 3,874 to approximately 6,800 by July 31, 2004 and to approximately 10,000 by July 31, 2005. The above increase in staff numbers corresponds to the expected rate of expansion of the production facilities at VS Zhuhai. Given the current expected growth in terms of staff numbers and with a view to ensure that newly employed staff will have immediate accommodation at the Premises, we are of the view that the above payment arrangement is appropriate since it may not be practicable to rent an exact area of the Premises on a monthly basis, with an expected increase in workers' number and the fact that the Premises are to be completed in stages up to August 2006. The above payment arrangement also allows VS Zhuhai to adjust the amount of rent payable on a half-yearly basis in light of its actual staff accommodation requirements. Consequently, we are of the opinion that the above arrangement is beneficial to the Company and is fair and reasonable to the Independent Shareholders.

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## LETTER FROM WATTERSON ASIA

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We have consulted Midland Surveyors Limited, an independent property valuer, and understand that the above monthly rent and management fee are similar to premises with comparable facilities in Zhuhai. On that basis, we are of the view that the Rent payable by VS Zhuhai is fair and reasonable so far as the Independent Shareholders are concerned. Furthermore, we are of the view that the adjustment mechanism as set out in the Lease Agreement with regard to management fee payable by VS Zhuhai has ensured that such management fee paid from time to time reflects latest market rate and as such are fair and reasonable so far as the Independent Shareholders are concerned.

With regard to the Lease Agreement, the Company has applied to the Stock Exchange for a waiver from strict compliance with the relevant requirements under the Listing Rules. The above waiver is conditional upon, inter alia, the Cap Amounts not exceeding approximately HK\$2.684 million for the period from the Effective Date to July 31, 2004, HK\$11.042 million from August 1, 2004 to July 31, 2005 and HK\$17.286 million from August 1, 2005 to July 31, 2006. As the Cap Amounts are calculated based on the budgeted maximum area expected to be leased by VS Zhuhai (calculated based on the expected number of staff employed by VS Zhuhai during the above period) and an aggregate monthly payment of RMB19.3 per sq. m. (comprising rental of RMB18 per sq. m. and management fee of RMB1.3 per sq. m.) to VS management, we are of the opinion that the Cap Amounts and the basis of such amounts so derived are fair and reasonable to the Independent Shareholders.

Under the Lease Agreement, the Rent is subject to adjustment upon the commencement of the second and the third three-year period, i.e. on January 15, 2007 and January 15, 2010, by reference to the fair market rental of comparable premises at the time as determined by an independent property valuer. In addition, the continuation of the Lease Agreement beyond July 31, 2006 will be subject to compliance with the Listing Rules which may require the approval of the then Independent Shareholders. In the event that the then Independent Shareholders disapprove of the continuation of the Lease Agreement, the Lease Agreement will be terminated. We are of the view that the above rental revision and break clauses have provided the Independent Shareholders with sufficient protection and are fair and reasonable so far as they are concerned.

### **Financial effects to the Group**

The Lease Agreement enables the Group to use the Premises without incurring capital commitments to build them itself and to pay Rent only according to area leased. It has been estimated that developing the Premises with a total floor area of around 100,000 sq. m. to house up to 10,000 employees in Zhuhai would cost HK\$150 million. Committing such capital commitment to build such Premises as staff quarters will strain financial resources of the Group out of its ordinary course of business. Consequently, we are of the opinion that that leasing of the Premises is a better alternative so far as the Group is concerned.

### **OPINION**

Having considered the above principal factors and reasons, we are of the view that the Lease Agreement is beneficial to the Group as a whole and that the terms of the Lease Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

Yours faithfully,  
For and on behalf of  
**Watterson Asia 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,

- (a) the information contained in this circular is accurate and complete in all material aspects and not misleading;
- (b) there are no other matters the omission of which would make any statement herein misleading; and
- (c) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

## 2. DISCLOSURE OF INTERESTS

- (a) As at the Latest Practicable Date, the interests and short positions of each Director in the Share or underlying Shares or the shares of its associated corporations (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 and short positions which he/she was taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:—

<b>Name of Director (Note 1)</b>	<b>The Company/name of associated corporation</b>	<b>Capacity</b>	<b>Number and class of securities (Note 2)</b>
Beh Kim Ling	The Company	Beneficial owner	17,437,500 Shares (L)
	VVS	Beneficial owner	3,182 ordinary shares of HK\$1 each (L)
	V.S. Industry Berhad	Beneficial owner	23,444,406 ordinary shares of RM1 each (L) (Notes 3 and 13)
	V.S. Corporation (Hong Kong) Co. Limited	Beneficial owner	3,750,000 non-voting deferred shares of HK\$1 each (L)
	VS Investment	Beneficial owner	3,600,000 ordinary shares of HK\$1 each (L) (Notes 4 and 14)
	V.S. Technology Sdn. Bhd. (Note 5)	Beneficial owner	50,000 ordinary shares of RM1 each (L)

**APPENDIX I****GENERAL INFORMATION OF THE GROUP**

<b>Name of Director (Note 1)</b>	<b>The Company/name of associated corporation</b>	<b>Capacity</b>	<b>Number and class of securities (Note 2)</b>
Gan Chu Cheng	The Company	Beneficial owner	17,437,500 Shares (L)
	VVS	Beneficial owner	3,182 ordinary shares of HK\$1 each (L)
	V.S. Industry Berhad	Beneficial owner	20,997,548 ordinary shares of RM1 each (L) (Notes 6 and 13)
	V.S. Corporation (Hong Kong) Co. Limited	Beneficial owner	3,750,000 non-voting deferred shares of HK\$1 each (L)
	VS Investment	Beneficial owner	3,600,000 ordinary shares of HK\$1 each (L) (Notes 7 and 14)
	V.S. Ashin Technology Sdn. Bhd. (Note 8)	Beneficial owner	672,000 ordinary shares of RM1 each (L)
	V.S. Technology Sdn. Bhd. (Note 5)	Beneficial owner	50,000 ordinary shares of RM1 each (L)
Gan Sem Yam	The Company	Beneficial owner	17,437,500 Shares (L)
	VVS	Beneficial owner	3,182 ordinary shares of HK\$1 each (L)
	V.S. Industry Berhad	Beneficial owner	10,967,920 ordinary shares of RM1 each (L) (Notes 9 and 13)
	V.S. Corporation (Hong Kong) Co. Limited	Beneficial owner	3,750,000 non-voting deferred shares of HK\$1 each (L)
	VS Investment	Beneficial owner	3,600,000 ordinary shares of HK\$1 each (L) (Notes 10 and 14)
	V.S. Ashin Technology Sdn. Bhd. (Note 8)	Beneficial owner	746,667 ordinary shares of RM1 each (L)
	V.S. Technology Sdn. Bhd. (Note 5)	Beneficial owner	50,000 ordinary shares of RM1 each (L)

Name of Director (Note 1)	The Company/name of associated corporation	Capacity	Number and class of securities (Note 2)
Gan Tiong Sia	The Company	Beneficial owner	14,337,500 Shares (L)
	VVS	Beneficial owner	3,182 ordinary shares of HK\$1 each (L)
	V.S. Industry Berhad	Beneficial owner	3,372,168 ordinary shares of RM1 each (L) (Notes 11 and 13)
	V.S. Industry Berhad	Interest of spouse	16,000 ordinary shares of RM1 each (L) (Note 12)
	V.S. Corporation (Hong Kong) Co. Limited	Beneficial owner	3,750,000 non-voting deferred shares of HK\$1 each (L)
	V.S. Technology Sdn. Bhd. (Note 5)	Beneficial owner	50,000 ordinary shares of RM1 each (L)

## Notes:—

- 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.
- The letter “L” represents the Director’s interests in the shares and underlying shares of the Company or its associated corporations.
- Mr. Beh Kim Ling’s interests in these shares comprise 23,423,406 shares registered under his name and the 21,000 outstanding options granted to him under the employees’ share option scheme of V.S. Industry Berhad as referred to in note 13 below.
- Mr. Beh Kim Ling’s interests in these shares comprise five shares registered under his name and the 3,599,995 outstanding options granted to him under the Option Deed as referred to in note 14 below.
- V.S. Technology Sdn. Bhd. is a company incorporated in Malaysia and is owned as to 75% by V.S. Industry Berhad and the remaining shares by other shareholders, including but not limited to Messrs. Beh Kim Ling, Gan Sem Yam and Gan Tiong Sia and Madam Gan Chu Cheng.
- Madam Gan Chu Cheng’s interests in these shares comprise 18,598,948 shares registered under her name, 2,377,600 shares held in bare trust by Kenanga Nominees (Tempatan) Sdn. Bhd. for the benefit of Madam Gan Chu Cheng and the 21,000 outstanding options granted to Madam Gan Chu Cheng under the employees’ share option scheme of V.S. Industry Berhad as referred to in note 13 below. Under the SFO, Madam Gan Chu Cheng is deemed to be interested in all these shares.
- Madam Gan Chu Cheng’s interests in these shares comprise five shares registered under her name and the 3,599,995 outstanding options granted to her under the Option Deed as referred to in note 14 below.
- V.S. Ashin Technology Sdn. Bhd. is a company incorporated in Malaysia and is owned as to 54.4% by V.S. Industry Berhad and the remaining shares by other shareholders, including but not limited to Madam Gan Chu Cheng and Mr. Gan Sem Yam.

9. Mr. Gan Sem Yam's interests in these shares comprise 10,306,920 shares registered under his name, 640,000 shares held in bare trust by Kenanga Nominees (Tempatan) Sdn. Bhd. for the benefit of Mr. Gan Sem Yam and the 21,000 outstanding options granted to Mr. Gan Sem Yam under the employees' share option scheme of V.S. Industry Berhad as referred to in note 13 below. Under the SFO, Mr. Gan Sem Yam is deemed to be interested in all these shares.
10. Mr. Gan Sem Yam's interests in these shares comprise five shares registered under his name and the 3,599,995 outstanding options granted to him under the Option Deed as referred to in note 14 below.
11. Mr. Gan Tiong Sia's interests in these shares comprise 3,322,168 shares registered under his name and the 50,000 outstanding options granted to him under the employees' share option scheme of V.S. Industry Berhad as referred to in note 13 below.
12. These shares are registered in the name of and beneficially owned by Madam Loi Hui Hong. Madam Loi Hui Hong is the spouse of Mr. Gan Tiong Sia, who by virtue of Section 316(1) of the SFO is deemed to be interested in the same number of these shares in which Madam Loi Hui Hong is interested.
13. Each of Messrs. Beh Kim Ling, Gan Sem Yam and Gan Tiong Sia and Madam Gan Chu Cheng were granted options under the employees' share option scheme of V.S. Industry Berhad, which became effective on July 11, 2000, to subscribe for 70,000 ordinary shares of RM1 each in the share capital of V.S. Industry Berhad at the exercise price of RM2.77 per share, exercisable at any time during the period of five years commencing from and including July 11, 2000 to July 10, 2005. The respective number of outstanding options remained unexercised by each of Messrs. Beh Kim Ling, Gan Sem Yam and Gan Tiong Sia and Madam Gan Chu Cheng as at the Latest Practicable Date was as follows:

<i>Name of Directors</i>	<i>Number of outstanding options</i>
Beh Kim Ling	21,000
Gan Chu Cheng	21,000
Gan Sem Yam	21,000
Gan Tiong Sia	50,000

14. The following options were granted under the Option Deed to the following Directors, which were, as at the Latest Practicable Date, outstanding:—

<i>Name of Directors</i>	<i>Number of outstanding options</i>
Beh Kim Ling	3,599,995
Gan Chu Cheng	3,599,995
Gan Sem Yam	3,599,995

- (b) Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interest and short positions in the Share, underlying Shares and debentures of the Company or that of any of its associated corporations (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 and short positions which he/she was taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

(c) Save as disclosed in this circular:—

- (i) none of the Directors is materially interested in any contract or arrangement entered into by the Company or any of its subsidiaries which contract or arrangement is subsisting at the date of this circular and which is significant in relation to the business of the Group; and
- (ii) none of the Directors is interested, directly or indirectly, in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to the Company or any of its subsidiaries since July 31, 2003, the date to which the latest published audited accounts of the Group were made up.

### 3. SERVICE CONTRACTS

Each of Messrs. Beh Kim Ling, Gan Sem Yam and Zhang Pei Yu and Madam Gan Chu Cheng has entered into a service contract with the Company, each of a term of three years commencing from August 1, 2001, and is automatically renewable for successive terms of one year upon expiry of the then current term, until terminated by not less than three months' notice in writing served by either party to the other.

Save as disclosed above, as at the Latest Practicable Date, none of the Director had any existing or proposed service contract with any member of the Group which will not expire or is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

### 4. DISCLOSABLE INTEREST UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO AND SUBSTANTIAL SHAREHOLDERS

- (a) So far as is known to the Directors, as at the Latest Practicable Date, the following shareholders, other than a Director or chief executive of the Company, had an interest or a short position in the Shares and underlying shares in 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:—

Name of Shareholder	Number of Shares (Note 1)	Nature of interest	Approximate percentage of interest
VVS	426,250,000 (L)	Beneficial owner	51.98%
V.S. Industry Berhad	426,250,000 (L)	Interest of a controlled corporation (Note 2)	51.98%
Value Partners Limited	65,304,000 (L)	Beneficial owner	7.96%
Cheah Cheng Hye	65,304,000 (L)	Interest of a controlled corporation (Note 3)	7.96%
Atlantis Investment Management Ltd.	46,176,000 (L)	Beneficial owner	5.63%

Notes:—

1. The letter “L” represents the entity’s long position in the Shares.
  2. These Shares were registered in the name of and beneficially owned by VVS, the entire issued share capital of which is registered in the name of and beneficially owned as to approximately 87.272% by V.S. Industry Berhad and approximately 3.182% by each of Messrs. Beh Kim Ling, Gan Sem Yam and Gan Tiong Sia and Madam Gan Chu Cheng. Under the SFO, V.S. Industry Berhad is deemed to be interested in all the Shares held by VVS.
  3. These Shares were registered in the name of and beneficially owned by Value Partners Limited, approximately 33.20% of the entire issued share capital of which is beneficially owned by Mr. Cheah Cheng Hye. Under the SFO, Mr. Cheah Cheng Hye is deemed to be interested in all the Shares held by Value Partners Limited.
- (b) So far as is known to the Directors, as at the Latest Practicable Date, the following entities were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the subsidiaries of the Company:—

Name of subsidiary	Name of shareholder	Number and class of shares	Approximate percentage of interest
VSA(HK)	Andes Electric Co., Ltd. (“Andes”)	2,964,000 ordinary shares of HK\$1 each	19%
VSA(HK)	Sumitronics Hong Kong Ltd. (“STX”)	1,560,000 ordinary shares of HK\$1 each	10%

- (c) Andes and STX have been granted by VSII an option (“Call Option”) to purchase such additional number of shares of HK\$1 each in the share capital of VSA(HK) which, together with all the shares already held by them, represent up to 49% of the entire issued share capital of VSA(HK) from VSII. The purchase price payable by the parties exercising such option shall be the higher of (i) HK\$1 or (ii) the net asset value of VSA(HK) as at the time of exercise of the Call Option as shown in its latest audited consolidated accounts which the shares to be purchased under the Call Option represent. There is no time limit for the exercise of the Call Option.
- (d) Save as disclosed above, so far as is known to the Directors, there is no other person who has an interest or short position in the shares and underlying shares in the Company (including interest in options, if any) which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or is directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.



**5. LITIGATION**

Neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and there is no litigation or claim of material importance known to the Directors to be pending or threatened by or against either the Company or any of its subsidiaries.

**6. CONSENT AND EXPERT**

- (a) Watterson Asia is a corporation licensed to carry on the regulated activities type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) as set out in the Schedule 5 to the SFO.
- (b) Watterson Asia has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and the reference to its name in the form and context in which it appears.
- (c) Watterson Asia is not interested in any shares of the Company nor does it have any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any shares in the capital of the Company.

**7. GENERAL**

- (a) The Directors are not aware of any material adverse change in the financial or trading position of the Group since July 31, 2003, the date to which the latest published audited accounts of the Group were made up.
- (b) The secretary of the Company is Mr. Felix Ooi Theng Kau, who is a member of Institute of Chartered Accountants New Zealand and Malaysian Institute of Accountants and an associate member of the Hong Kong Society of Accountants.
- (c) The registered office of the Company is located at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681GT, George Town, Grand Cayman, British West Indies. The principal place of business of the Company is 4106, 41st Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.
- (d) The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited of Rooms 1901-1905, 19th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (e) The English text of this circular shall prevail over the Chinese text in case of inconsistency.

**8. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the office of Koo and Partners in Association with Paul, Hastings, Janofsky & Walker LLP at 21st Floor, Bank of China Tower, One Garden Road, Hong Kong during normal business hours up to and including January 12, 2004:–

- (a) the letter of advice from Watterson Asia to the Independent Directors, the text of which is set forth on pages 13 to 15 of this circular;
- (b) the letter from the Independent Directors, the text of which is set forth on page 12 of this circular;
- (c) the written consent from Watterson Asia referred to in paragraph 6 of this appendix;
- (d) the Lease Agreement; and
- (e) the service contracts referred to in paragraph 3 of this appendix.

*The following notice convening the EGM and proxy form were despatched to the Shareholders on December 20, 2003. Hence the following documents are for information purpose only, but the Shareholders may use the following proxy form to appoint their proxy. Please complete the proxy form and return in accordance with the instructions printed thereon as soon as possible and in any event no later than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof.*



## V.S. INTERNATIONAL GROUP LIMITED

威鉞國際集團有限公司

*(Incorporated in the Cayman Islands with limited liability)*

### NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “EGM”) of V.S. International Group Limited (the “Company”) will be held at 2:00 p.m. on Monday, January 12, 2004 at Salon II, Mezzanine Floor, Grand Hyatt Hong Kong, 1 Harbour Road, Wanchai, Hong Kong for the purpose of considering and, if thought fit, approving, with or without modifications, the following resolutions as ordinary resolutions of the Company:—

#### ORDINARY RESOLUTIONS

##### “THAT

- (a) the entering into a conditional lease agreement (the “Lease Agreement”) dated December 11, 2003 between V.S. Technology Industry Park (Zhuhai) Co., Ltd., a wholly-owned subsidiary of the Company, and V.S. (Zhuhai) Management Co., Ltd., be approved and confirmed; and
- (b) the directors of the Company (the “Directors”) be and are hereby authorised to do all such acts and things and execute all documents, in such time and at such consideration and through such means, as they may consider necessary, expedient or desirable for the implementation of and giving effect to the Lease Agreement.”

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

Zhuhai, the People’s Republic of China, December 20, 2003

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

4106, 41st Floor  
 Office Tower, Convention Plaza  
 1 Harbour Road  
 Wanchai  
 Hong Kong

#### **Registered Office:—**

Century Yard  
 Cricket Square  
 Hutchins Drive  
 P.O.Box 2681GT  
 George Town  
 Grand Cayman  
 British West Indies

#### **Notes:—**

- a. The EGM is convened for considering and if thought fit, approving, the above ordinary resolutions. Information on the Lease Agreement was contained in the announcement of the Company dated December 11, 2003, and a circular containing further information on the Lease Agreement, together with copies of this notice and the enclosed proxy form, will be despatched to the shareholders of the Company within 21 days after the publication of the related announcement of the Company pursuant to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.
- b. A shareholder of the Company entitled to attend and vote at the EGM is entitled to appoint one or more proxies to attend and, subject to the provisions of the articles of association of the Company, vote at the EGM. A proxy need not be a shareholder.
- c. Where there are joint registered holders of any shares of the Company, any one of such joint holders may vote at the EGM, either personally or by proxy, in respect of such shares as if he/she were solely entitled to. But if more than one of such joint holders be present at the EGM personally or by proxy, that one of the said persons so present whose name stands first in the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.
- d. In order to be valid, the enclosed form of proxy and the power of attorney (if any), under which it is signed or notarially certified copy of that power of attorney or authority must be deposited at the office of the Company’s branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited of Rooms 1901-1905, 19th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong no later than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or any adjournment thereof if you so wish. In such event, the form of proxy shall be deemed to be revoked.