
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this circular, 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 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 transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

**V.S. INTERNATIONAL GROUP LIMITED****威鉞國際集團有限公司***(incorporated in the Cayman Islands with limited liability)***ONGOING CONNECTED TRANSACTIONS****PROCESSING OF PRINTED CIRCUIT BOARD
AND RELATED PRODUCTS****USING SURFACE MOUNTING TECHNOLOGIES
FOR A SUBSTANTIAL SHAREHOLDER OF A SUBSIDIARY****Independent Financial Adviser****Watterson Asia Limited**

A letter from the Board is set out on pages 3 to 8 of this circular, a letter from the Independent Board Committee is set out on page 9 of this circular and a letter from Watterson is set out on pages 10 to 12 of this circular.

12 December 2003

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	
1. Introduction	3
2. The Ongoing Connected Transactions	4
3. Reasons for the Ongoing Connected Transactions	5
4. Waiver for the Ongoing Connected Transactions	6
5. Position of the Former Waiver	7
6. Information of the Group and STX	7
7. Connected Transactions	7
Letter from the Independent Board Committee	9
Letter from Watterson	10
Appendix – General Information	13

DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions 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
“ Director(s) ”	the director(s) of the Company
“ Group ”	the Company and its subsidiaries
“ HK\$ ”	Hong Kong dollars, the lawful currency of the Hong Kong Special Administrative Region of the PRC
“ Independent Board Committee ”	the independent committee of the Board comprising Mr. Diong Tai Pew and Mr. Cheung Kwan Hung, Anthony, both being independent non-executive Directors
“ Independent Shareholder(s) ”	Shareholder(s) other than STX, any connected person interested in the Ongoing Connected Transactions and their respective associates
“ Latest Practicable Date ”	10 December 2003, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information in this circular
“ Listing Rules ”	The Rules Governing the Listing of Securities on the Stock Exchange
“ Ongoing Connected Transactions ”	the connected transactions in relation to the processing of printed circuit board for electronic products, its related electronic semi-finished and/or finished products using the surface mounting technologies to be entered into between VSA(HK) and STX, details of which are set out in the section headed “ The Ongoing Connected Transactions ” in this circular
“ Option Deed ”	the option deed dated 20 January 2002 and 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 each in the share capital of VS Investment at an exercise price of HK\$1 per share, exercisable at any time during the period of 36 months from and including 8 February 2002, being the date on which the dealing of the ordinary shares of the Company commenced on the main board of the Stock Exchange

DEFINITIONS

“ PRC ”	The People’s Republic of China
“ RM ”	Malaysian Ringgit, the lawful currency of Malaysia
“ SF Ordinance ”	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“ Share(s) ”	ordinary share(s) of HK\$0.05 each in the share capital of the Company
“ Shareholder(s) ”	shareholder(s) of the Company
“ Stock Exchange ”	The Stock Exchange of Hong Kong Limited
“ STX ”	Sumitronics Hong Kong Ltd., a company incorporated in Hong Kong, a shareholder of VSA(HK) holding 10% of its issued share capital
“ 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 and is beneficially owned as to approximately 99.99995% by the Company, as to approximately 0.00003% in aggregate by Messrs. Beh Kim Ling, 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
“ Watterson ”	Watterson Asia Limited, the independent financial adviser to the Independent Board Committee in relation to the Ongoing Connected Transactions
“ % ”	per cent.

* *for identification only*

LETTER FROM THE BOARD



V.S. INTERNATIONAL GROUP LIMITED

威鉞國際集團有限公司

(incorporated in the Cayman Islands with limited liability)

Executive Directors:

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

Registered Office:

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

Non-executive Director:

Mr Gan Tiong Sia

Independent non-executive Directors:

Mr Diong Tai Pew
Mr Cheung Kwan Hung, Anthony

***Head Office and Principal Place of
Business in Hong Kong:***

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

12 December 2003

To the Shareholders

Dear Sirs,

ONGOING CONNECTED TRANSACTIONS

**PROCESSING OF PRINTED CIRCUIT BOARD
AND RELATED PRODUCTS
USING SURFACE MOUNTING TECHNOLOGIES
FOR A SUBSTANTIAL SHAREHOLDER OF A SUBSIDIARY**

1. INTRODUCTION

Reference is made to the Company's announcement dated 9 July 2003 in relation to an application for a waiver from strict compliance with the disclosure requirements under Rule 14.25(1) of the Listing Rules for the Ongoing Connected Transactions subject to the conditions mentioned therein. On 11 July 2003, such waiver was granted by the Stock Exchange subject to the conditions mentioned in the said announcement.

On 21 November 2003, the Company announced that the aggregate processing fees payable by STX under the Ongoing Connected Transactions for the three months ended 31 October 2003 have already amounted to HK\$5.5 million and, as the estimated processing fees receivable by VSA(HK) for the five months ending 31 March 2004 attributable to the processing orders expected to be

LETTER FROM THE BOARD

placed by STX (after taking into account the production plans as indicated by one of its customers) amount to approximately HK\$13.2 million, the Directors anticipate that the aggregate processing fees receivable from these Ongoing Connected Transactions for the financial year ending 31 July 2004 and each financial year thereafter may exceed the higher of HK\$10 million or 3% of the book value of the Group's net tangible assets, and thereby trigger the Independent Shareholders' approval requirements under Rule 14.26 of the Listing Rules.

The purpose of this circular is to provide you with further information regarding the Ongoing Connected Transactions, and to set out the advice of Watterson to the Independent Board Committee, the advice of the Independent Board Committee to the Independent Shareholders in respect of the terms and conditions of the Ongoing Connected Transactions and other information of the Group.

2. THE ONGOING CONNECTED TRANSACTIONS

Since the commencement of commercial operation of VSA(HK) in April 2003, VSA(HK) has been principally engaged in the business of, among other businesses, the processing of printed circuit board and its related electronic semi-finished and/or finished products using the surface mounting technologies.

The Ongoing Connected Transactions are in relation to the processing of printed circuit board for electronic products, its related electronic semi-finished and/or finished products using the surface mounting technologies to be entered into between VSA(HK) and STX.

STX became a substantial shareholder of VSA(HK) on 11 April 2003 and, for the period commencing from 11 April 2003 until 31 July 2003, STX has been engaging VSA(HK) for the processing of printed circuit board for electronic products and has placed processing orders in respect thereof for the aggregate processing fees of approximately HK\$1.4 million, payable by STX to VSA(HK). For the three months ended 31 October 2003, processing orders for the aggregate processing fees of approximately HK\$5.5 million payable by STX to VSA(HK) had been placed. The Directors also anticipate that, when VSA(HK) becomes more proficient in the utilisation of the surface mounting technologies, STX may also engage VSA(HK) for the processing of other printed circuit board-related electronic semi-finished and/or finished products using the surface mounting technologies in future.

As VSA(HK) is a 71%-owned indirect subsidiary of the Company and STX holds 10% of its issued share capital, STX is a connected person to the Company under the Listing Rules and therefore the said processing transactions constitute connected transactions under the Listing Rules. For that purpose, the Company had applied for a waiver from strict compliance with the disclosure requirements under Rule 14.25(1) of the Listing Rules for the Ongoing Connected Transactions subject to the conditions mentioned in the Company's announcement dated 9 July 2003, and such waiver was granted by the Stock Exchange on 11 July 2003 subject to the conditions mentioned in the said announcement.

As these transactions involve simple processing and production of printed circuit board for electronic products which constitutes part of the usual and ordinary course of business of VSA(HK), no formal agreement has been entered into by VSA(HK) and STX. Terms and conditions of these processing transactions were negotiated between the parties on a case-by-case and arm's length basis, and were no less favourable than those available to independent third parties. The processing fees charged by VSA(HK) under these transactions were determined on the basis of the cost of labour, machinery, production plant expenses, transportation and ancillary production materials, plus a customary profit margin over the cost of sales.

LETTER FROM THE BOARD

3. REASONS FOR THE ONGOING CONNECTED TRANSACTIONS

The Ongoing Connected Transactions form parts of the cooperation between the Group and STX under the joint venture arrangement in VSA(HK), details of which have been set out in the Company's announcement dated 9 December 2002, and are in the normal and ordinary course of the respective businesses of VSA(HK) and STX. As STX is a worldwide distributor of electronic products and has extensive worldwide marketing and distribution networks, the Directors consider that, by engaging in the Ongoing Connected Transactions in the future, the Group would be able to capture more business opportunities in these high market potential products and to enlarge its market shares worldwide.

The Directors, including the independent non-executive Directors, are of the opinion that the Ongoing Connected Transactions have been entered into in the usual and ordinary course of business of the Group, on normal commercial terms and are fair and reasonable and in the best interests of the Company and its Shareholders as a whole. The terms and conditions of each of the Ongoing Connected Transactions will be negotiated between the parties on a case-by-case and arm's length basis, and will be no less favourable than those available to independent third parties, and the processing fees to be charged by VSA(HK) under each of the Ongoing Connected Transactions will be determined on the basis of the cost of labour, machinery, production plant expenses, transportation and ancillary production materials, plus a customary profit margin over the cost of sales.

As the Ongoing Connected Transactions form parts of the cooperation between the Group and STX under the joint venture arrangement in VSA(HK), it is expected that the Ongoing Connected Transactions will take place from time to time in the future on a regular basis and will arise in the ordinary and normal course of business of VSA(HK) on normal commercial terms. Furthermore, given that the aggregate processing fees payable by STX under the Ongoing Connected Transactions for the three months ended 31 October 2003 have already amounted to HK\$5.5 million (equivalent to approximately 1.43% of the latest published audited consolidated net asset value of the Company) and the estimated processing fees of approximately HK\$13.2 million (equivalent to approximately 3.43% of the latest published audited consolidated net asset value of the Company) for the five months ending 31 March 2004 attributable to the processing orders expected to be placed by STX (after taking into account the production plans as indicated by one of its customers), the Directors anticipate that the aggregate processing fees receivable from these Ongoing Connected Transactions for the financial year ending 31 July 2004 and each financial year thereafter may exceed the higher of HK\$10 million or 3% of the book value of the Group's net tangible assets, and thereby trigger the Independent Shareholders' approval requirements under Rule 14.26 of the Listing Rules.

As the Ongoing Connected Transactions will take place from time to time in the future, the Directors consider that it would not be practical to make announcement of, or where necessary, to obtain Independent Shareholders' approval for, each time when such Ongoing Connected Transactions occur pursuant to Rule 14.26 of the Listing Rules. Accordingly, the Company has applied to the Stock Exchange for a waiver from strict compliance with the disclosure requirements and the Independent Shareholders' approval requirements under Rule 14.26 of the Listing Rules for the Ongoing Connected Transactions for the three financial years ending 31 July 2006.

LETTER FROM THE BOARD

4. WAIVER FOR THE ONGOING CONNECTED TRANSACTIONS

The Company has applied to the Stock Exchange for a waiver from strict compliance with the disclosure requirements and the Independent Shareholders' approval requirements under Rule 14.26 of the Listing Rules for the Ongoing Connected Transactions for the three financial years ending 31 July 2006 (the "**Relevant Period**") subject to the following conditions:

- (A) the Ongoing Connected Transactions will be:
 - (i) entered into by VSA(HK) in the ordinary and usual course of its business;
 - (ii) conducted on normal commercial terms (which expression shall be applied by reference to transactions of a similar nature and to be made by similar entities), or (where there is no available comparison) on terms that are fair and reasonable so far as the Shareholders, taken as a whole, are concerned; and
 - (iii) entered into either in accordance with the terms of the agreements governing the Ongoing Connected Transactions or, where there are no such agreements, on terms no less favourable than those available to or from independent third parties;
- (B) the aggregate processing fees to be received by VSA(HK) in respect of the Ongoing Connected Transactions for each financial year of the Company shall not exceed the cap amount (the "**Cap Amount**") of 4% of the Group's sales in respect of the financial year ending 31 July 2004, 5% of the Group's sales in respect of the financial year ending 31 July 2005 and 6% of the Group's sales in respect of the financial year ending 31 July 2006;
- (C) the Company's independent non-executive Directors shall review the Ongoing Connected Transactions annually and confirm in the Company's annual report and accounts for the year in question that they were conducted in the manner as stated in paragraphs (A) and (B) above;
- (D) the auditors of the Company 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 Stock Exchange) stating that:
 - (i) the Ongoing Connected Transactions have been approved by the board of Directors;
 - (ii) the Ongoing Connected Transactions have been entered into in accordance with the terms of the agreements governing the Ongoing Connected Transactions or, where there is no such agreement, on terms being no less favourable than those available to or from independent third parties; and
 - (iii) the aggregate processing fees received by VSA(HK) in respect of the Ongoing Connected Transactions has not exceeded the Cap Amount,

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

- (E) details of the Ongoing Connected Transactions in each financial year as required under Rule 14.25(A) to (D) of the Listing Rules shall be disclosed in the annual report and accounts of the Company for that financial year together with a statement of the opinion of the independent non-executive Directors referred to in paragraph (C) above; and

LETTER FROM THE BOARD

- (F) each of the Company and STX shall provide to the Stock Exchange an undertaking that, for so long as the shares of the Company are listed on the Stock Exchange, it will provide the Company's auditors with full access to their relevant records for the purpose of their review of the Ongoing Connected Transactions referred to in paragraph (D) above.

In the event that the Cap Amount is exceeded, or in the event of any future changes to the terms governing the relevant Ongoing Connected Transactions, the Company must strictly comply with the relevant provisions of Chapter 14 of the Listing Rules unless it applies for and obtain a separate waiver from the Stock Exchange.

The Cap Amount is determined on the basis of, among other matters, the aggregate processing fees attributable to the processing orders placed or anticipated to be placed by STX for the eight months ending 31 March 2004, the sales of the Group for the three months ended 31 October 2003 and the forecast sales of the Group for the five months ending 31 March 2004 after taken into account the Group's sales for the corresponding period in the previous fiscal year and the anticipated sales to STX, and the expected growth in the Group's total sales and that to STX during the Relevant Period.

5. POSITION OF THE FORMER WAIVER

The Company made an application for a waiver ("**Former Waiver**") from strict compliance with the disclosure requirements under Rule 14.25(1) of the Listing Rules for the Ongoing Connected Transactions on 9 July 2003 subject to, among other conditions as mentioned in the Company's announcement dated 9 July 2003, that the aggregate processing fees to be received by VSA(HK) in respect of the Ongoing Connected Transactions for each financial year of the Company shall not exceed the cap amount of the higher of either HK\$10 million or 3% of the latest consolidated audited net tangible assets of the Group in that financial year. Such waiver was granted by the Stock Exchange on 11 July 2003.

The Former Waiver will be revoked upon the granting of the new waiver by the Stock Exchange. The Group will comply with the conditions of the Former Waiver until the new waiver is being granted.

6. INFORMATION OF THE GROUP AND STX

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. STX has been principally engaged in the distribution of electronic products.

7. CONNECTED TRANSACTIONS

Given that the aggregate processing fees receivable by VSA(HK) from the Ongoing Connected Transactions for each of the three financial years ending 31 July 2006 may exceed the higher of HK\$10 million or 3% of the book value of the Group's net tangible assets, the Ongoing Connected Transactions are subject to disclosure and Independent Shareholders' approval requirements under Rule 14.26 of the Listing Rules.

Under the Listing Rules, any connected person interested in the Ongoing Connected Transactions and its associates will be required to abstain from voting on the resolution approving the Ongoing Connected Transactions at the relevant general meeting. So far as the Directors are aware after making reasonable enquiries, none of STX, any person interested in the Ongoing Connected Transactions and their respective associates is a Shareholder as at 21 November 2003 and none of the Shareholders would have been required to abstain from voting if a general meeting of the Shareholders had been convened to approve the Ongoing Connected Transactions.

LETTER FROM THE BOARD

The Company has applied to the Stock Exchange for permission to obtain Independent Shareholders' approval for the Ongoing Connected Transactions for such period by way of a written approval given by its controlling Shareholder in lieu of a resolution to be passed at a general meeting of the Company. VVS Co., Ltd., being a substantial Shareholder holding approximately 51.98% interest in the entire issued share capital of the Company and one of the Independent Shareholders, has given a written certificate to approve the Ongoing Connected Transactions for the three financial years ending 31 July 2006. VVS Co., Ltd. has no interest in the Ongoing Connected Transactions and is independent of, and is not connected with, STX, its subsidiaries and associates (as defined under the Listing Rules).

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



V.S. INTERNATIONAL GROUP LIMITED

威鉞國際集團有限公司

(incorporated in the Cayman Islands with limited liability)

12 December 2003

To the Independent Shareholders of
V.S. International Group Limited

Dear Sir or Madam,

We have been appointed as members of the Independent Board Committee to consider the Ongoing Connected Transactions. Our role as Independent Board Committee is to advise the Independent Shareholders as to whether the terms of the Ongoing Connected Transactions and the Cap Amount are fair and reasonable so far as the Independent Shareholders are concerned. We have been advised by Watterson, the independent financial adviser, in this regard. Background and details of the Ongoing Connected Transactions are set out in the circular of the Company dated 12 December 2003 to the Shareholders (the “**Circular**”) of which this letter forms part. Capitalised terms defined in the Circular shall have the same meanings when used in this letter, unless otherwise stated.

We have discussed with the management of the Company on the terms of the Ongoing Connected Transactions and the annual Cap Amount being put forward. We have also considered the advice given by Watterson. We concur with the views of Watterson that the terms of the Ongoing Connected Transactions and the Cap Amount are fair and reasonable so far as the Independent Shareholders are concerned. In this regard, we draw your attention to the letter from Watterson as set out in the Circular, containing its advice together with the principal factors taken into consideration in arriving at its recommendation.

Your attention is also drawn to the letter from the Board as set out in the Circular and the additional information set out in the appendix to the Circular.

Yours faithfully,

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

LETTER FROM WATTERSON

The following is the text of a letter from Watterson for the purpose of incorporation in this circular in connection with its advice to the Independent Board Committee in relation to the Ongoing Connected Transactions.

12 December 2003

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

Dear Sirs,

ONGOING CONNECTED TRANSACTIONS

PROCESSING OF PRINTED CIRCUIT BOARD AND RELATED PRODUCTS USING SURFACE MOUNTING TECHNOLOGIES FOR A SUBSTANTIAL SHAREHOLDER OF A SUBSIDIARY

We refer to our appointment as independent financial adviser to the Independent Board Committee in relation to the Ongoing Connected Transactions with Sumitronics Hong Kong Ltd. (“STX”), a connected person as defined under the Listing Rules. Our role as independent financial adviser is to give our opinion as to whether the terms of the Ongoing Connected Transactions and the annual Cap Amount relating thereto are fair and reasonable to Independent Shareholders. Details of the Ongoing Connected Transactions are set out in the letter from the Board contained in the circular dated 12 December 2003 (the “**Document**”) to Shareholders. Our letter forms part of the Document and capitalised terms used in this letter have the same meanings as defined in the Document.

In putting forth our advice, we have relied on the Company to provide us with all relevant information including the current sales budgets of VSA(HK) and that of the Group for the period up to 31 July 2006. We have assumed that representations by the Directors relating to the budgets prepared by the Company were accurate at the time they were made and continue to be so as at the date of the Document. We have discussed the bases and assumptions made by you in relation to those budgets and are of the view that the budgets so prepared have been made after due and careful consideration.

We consider that we have sufficient information to reach an informed view and to provide a reasonable basis for our advice. The Directors have also confirmed to us that no material facts have been omitted from the information supplied and we have no reason to suspect that any material information has been withheld by the Company or 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.

LETTER FROM WATTERSON

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion on the Ongoing Connected Transactions and the annual Cap Amount, we have taken into consideration the following factors and reasons:

Reasons for the Ongoing Connected Transactions

The Group is principally engaged in the manufacture and sales of plastic moulded products and parts for consumer electronic products and electrical appliances. It is also involved in the assembling of electronic products for as well as the design and fabrication of moulds. With a view to expand its business into the assembly of high-end electronic products such as digital cameras and colour screen mobile phones for third party manufacturers, VSA(HK) entered into a joint venture with Andes Electric Co., Ltd., one of the leading surface mount technologies providers based in Japan, and STX to produce printed circuit boards and its related electronic semi-finished and/or finished products using surface mounting technologies. STX is a trading house under the Sumitomo Corporation Group that specializes in the trading between the US and the Asia Pacific region, including Japan. Sumitomo Corporation Group develops, manufactures and distributes more than 20,000 products worldwide and had sales of US\$84 billion in 2002.

The above joint venture commenced its commercial operations in April 2003 with STX began to place processing orders with VSA(HK) for printed circuit boards for electronic products, resulting in the Ongoing Connected Transactions. As STX is a worldwide distributor of electronic products and has extensive worldwide marketing and distribution networks, we agree with the Directors that by engaging in the Ongoing Connected Transactions, the Group will be able to capture more business opportunities in the area of assembly of high-end electronics products and to enlarge its business opportunities in the worldwide market.

Terms of the Ongoing Connected Transactions

We understand from the Company that processing fees charged by VSA(HK) are negotiated on a case-by-case and arm-length's basis. Processing fees are determined on the basis of cost of labor, machinery, production plant expenses, transportation and ancillary production materials, plus a customary profit margin over the above costs. We are of the opinion that the basis for determining processing fees is market practice for manufacturers such as the Group and is thus fair and reasonable. We have also compared the gross profit margin derived from the Ongoing Connected Transactions with that attained by the Group in the assembly of other electronic products and found that to be higher than that achieved in the latter assembly jobs. On that basis, we are of the view that the Ongoing Connected Transactions are beneficial to the Group and that the terms of the Ongoing Connected Transactions are fair and reasonable so far as the Independent Shareholders are concerned.

The Cap Amount

One of the conditions for the application to the Stock Exchange in respect of the Ongoing Connected Transactions is that the aggregate processing fees to be received by VSA(HK) from STX shall not exceed the Cap Amount of 4% of the Group's sales for the year ending 31 July 2004, 5% for year ending 31 July 2005 and 6% for the year ending 31 July 2006. We understand from the Company that the estimated processing fees payable by STX under the Ongoing Connected Transactions are expected to represent 3.2% of the Group's total projected sales for the year ending 31 July 2004. The estimation was made on the basis of the actual fees of approximately HK\$5.5 million to be received from STX for the three months to 31 October 2003, approximately HK\$13.2 million for the five months to 31 March 2004 attributable to orders expected to be placed by STX (after taking into account production plans as indicated by one of its customers) and an estimate of the businesses expected to be generated from both existing and new end-customers for the second

LETTER FROM WATTERSON

half of the financial year ending 31 July 2004. Taking into account the above and the reasons for the buffer of 0.8% as mentioned below, we are of the opinion that the basis for the calculation of the Cap Amount for the year ending 31 July 2004 is fair and reasonable. For the years ending 31 July 2005 and 31 July 2006, the Company has further estimated that monthly processing fees to be received from STX would increase by approximately 15% for the year ending 31 July 2005 as compared with the projected average monthly processing fees for the four months ending 31 July 2004, and by 40% for the year ending 31 July 2006 as compared with the projected average monthly processing fees for the year ending 31 July 2005.

Based on the above, the Company has estimated that the budgeted processing fees expected to be received from STX in respect of the year ending 31 July 2004, 2005 and 2006 would represent approximately 3.2%, 4.6% and 5.1% of the Group's projected total sales in the above respective financial period. Based on the above, there are buffers of 0.8%, 0.4% and 0.9% under the Cap Amount for the respective financial years. We understand the above buffers are mainly designed to cater for the possibility of increased fee processing income from STX compared to budgeted amounts. We are of the view that the above buffers are fair and reasonable due to the following reasons:

- the above budgeted processing fees from STX and the Group's budgeted sales are bound to vary from actual amounts for the years ending 31 July 2006 as the above are budgets only;
- the buffers represent only 0.8%, 0.4% and 0.9% of the Cap Amount for the three years to 31 July 2006;
- the Group's anticipated increase in end-customers' base in relation to products using surface mounting technologies due to their higher growth rate; and
- the Ongoing Connected Transactions are beneficial to the Group and is in line with the Group's business strategy to diversify into high-end consumer electronics assemblies.

Based on the above, we are of opinion that the Cap Amount imposed with regard to the Ongoing Connected Transactions are fair and reasonable to the Independent Shareholders.

Recommendation

Having considered the above principal factors and reasons, we are of the view that the terms of the Ongoing Connected Transactions and the annual Cap Amount 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 Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

- (a) As at the Latest Practicable Date, the interests and short positions of each Director in the share or underlying shares of the Company or its associated corporations (within the meaning of the SF Ordinance) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SF Ordinance (including interests and short positions which he/she was taken or deemed to have under such provisions of the SF Ordinance), or which were required, pursuant to section 352 of the SF Ordinance, 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:

Name of Director (Note 1)	The Company / name of associated corporation	Capacity	Number and class of securities (Note 2)
Beh Kim Ling	The Company	Beneficial owner	17,437,500 Shares (L)
	VVS Co., Ltd.	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)
	Gan Chu Cheng	The Company	Beneficial owner
VVS Co., Ltd.		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)

Name of Director (Note 1)	The Company / name of associated corporation	Capacity	Number and class of securities (Note 2)
Gan Sem Yam	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)
	The Company	Beneficial owner	17,437,500 Shares (L)
	VVS Co., Ltd.	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)
Gan Tiong Sia	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)
	The Company	Beneficial owner	14,337,500 Shares (L)
	VVS Co., Ltd.	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:

1. Mr. Beh Kim Ling is the husband of Madam Gan Chu Cheng, and the brother-in-law of Messrs. Gan Sem Yam and Gan Tiong Sia.
2. The letter “L” represents the Director’s interests in the shares and underlying shares of the Company or its associated corporations.
3. 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 employee’s share option scheme of V.S. Industry Berhad as referred to in note 13 below.
4. 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.
5. 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, Gan Tiong Sia and Madam Gan Chu Cheng.
6. 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 employee’s share option scheme of V.S. Industry Berhad as referred to in note 13 below. Under the SF Ordinance, Madam Gan Chu Cheng is deemed to be interested in all these shares.
7. 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.
8. 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 employee’s share option scheme of V.S. Industry Berhad as referred to in note 13 below. Under the SF Ordinance, 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 employee’s 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 SF Ordinance 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, Gan Tiong Sia and Madam Gan Chu Cheng were granted options under the employee’s share option scheme of V.S. Industry Berhad, which became effective on 11 July 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 11 July 2000 to 10 July 2005. The respective number of outstanding options remained unexercised by each of Messrs. Beh Kim Ling, Gan Sem Yam, 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 any associated corporations (within the meaning of the SF Ordinance) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SF Ordinance (including interests and short positions which he/she was taken or deemed to have under such provisions of the SF Ordinance), or which were required, pursuant to section 352 of the SF Ordinance, 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 31 July 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, 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 1 August 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 SF ORDINANCE 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 SF Ordinance:

Name of shareholder	Number of Shares <i>(Note 1)</i>	Nature of interest	Approximate percentage of interest
VVS Co., Ltd.	426,250,000 (L)	Beneficial owner	51.98%
V.S. Industry Berhad	426,250,000 (L)	Interest of a controlled corporation <i>(Note 2)</i>	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 <i>(Note 3)</i>	7.96%
Atlantis Investment Management Ltd.	46,176,000 (L)	Beneficial owner	5.63%

Notes:

- The letter "L" represents the entity's long position in the Shares.
 - These Shares were registered in the name of and beneficially owned by VVS Co., Ltd., 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, Gan Tiong Sia and Madam Gan Chu Cheng. Under the SF Ordinance, V.S. Industry Berhad is deemed to be interested in all the Shares held by VVS Co., Ltd.
 - 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 SF Ordinance, 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.	2,964,000 ordinary shares of HK\$1 each	19%
VSA(HK)	STX	1,560,000 ordinary shares of HK\$1 each	10%

- (c) Andes Electric Co., Ltd. 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 SF Ordinance, 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 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 SF Ordinance.
- (b) Watterson has given and has not withdrawn its written consents 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 is not interested in any shares in the capital 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 31 July 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 Chiu & Partners, 41st Floor, Jardine House, 1 Connaught Place, Central, Hong Kong during normal business hours up to and including 29 December 2003:

- (a) the letter of advice from Watterson to the Independent Board Committee, the text of which is set out on pages 10 to 12 of this circular;
- (b) the written consent from Watterson referred to in paragraph 6 of this appendix; and
- (c) the service contracts referred to in paragraph 3 of this appendix.