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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 AND APPLICATION FOR WAIVER

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.

VSA(HK), a non-wholly owned subsidiary of the Company, 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 since its commencement of commercial operation in April 2003.

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.

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 and the estimated processing fees of approximately HK\$13.2 million 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 subject to the waiver conditions detailed below.

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 the date of this announcement 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. 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 its written approval to the Ongoing Connected Transactions for the three financial years ending 31 July 2006. 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.

A circular containing details of the Ongoing Connected Transactions, a letter from an independent financial adviser and a letter from the independent board committee will be despatched to the Shareholders as soon as possible.

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.

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.

WAIVER FOR 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:

1. 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

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- (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;
2. 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;
3. 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 (1) and (2) above;
4. 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;
5. 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 (3) above; and
6. 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 (4) above.

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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.

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.

BUSINESS OF THE GROUP

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.

GENERAL

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.

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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 the date of this announcement 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. 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 its written approval to the Ongoing Connected Transactions for the three financial years ending 31 July 2006. 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.

A circular containing details of the Ongoing Connected Transactions, a letter from an independent financial adviser and a letter from the independent board committee will be despatched to the Shareholders as soon as possible.

DEFINITIONS

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

“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 Stock Exchange
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Shareholders”	Shareholders other than STX, any connected person interested in the Ongoing Connected Transactions and their respective associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

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“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 “Ongoing Connected Transactions” of this announcement
“PRC”	the People’s Republic of China
“Shareholder(s)”	shareholder(s) of the Company
“STX”	Sumitronics Hong Kong Ltd., a company incorporated in Hong Kong, a shareholder of VSA(HK) holding 10% of its issued share capital
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“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
“%”	per cent.

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

Hong Kong, 21 November 2003

Please also refer to the published version of this announcement in The Standard dated on 24-11-2003.