

V.S. International Group Limited

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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

Since the commencement of business operation of VSA(HK), a non-wholly owned subsidiary of the Company, 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.

STX has been engaging VSA(HK) for the processing of printed circuit board for electronic products since Completion. For the period commencing from the date of Completion until the date of this announcement, STX has placed processing orders in respect thereof for the aggregate processing fees of approximately HK\$896,000, payable by STX to VSA(HK). 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), details of which have been set out in the Company announcement dated 9 December 2002, 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 up to the date of this announcement have already amounted to HK\$896,000, and STX anticipates that it will further place processing orders in respect of the Ongoing Connected Transactions for the aggregate processing fees of approximately HK\$519,000 for the month ending 31 July 2003, and approximately HK\$5.6 million during the five months ending 31 December 2003, the Directors anticipate that the aggregate processing fees receivable from the Ongoing Connected Transactions for the financial year ending 31 July 2003 and each financial year thereafter may exceed the higher of HK\$1 million or 0.03% of the book value of the Group's net tangible assets and thereby trigger the disclosure requirements under Rule 14.25(1) of the Listing Rules. The Directors consider that it would not be practical to make announcement each time when such Ongoing Connected Transactions occur pursuant to Rule 14.25(1) of the Listing Rules.

Accordingly, the Company has applied to the Stock Exchange 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 waiver conditions detailed below.

THE ONGOING CONNECTED TRANSACTIONS

Reference is made to the announcement of the Company dated 9 December 2002 regarding, among other things, the signing of the Joint Venture Agreement for the cooperation and joint investments in VSA(HK) by the Group and STX. As part of such joint venture arrangement, each of the Group, Andes and STX entered into a share purchase and subscription agreement on 28 January 2003, Completion of which took place on 11 April 2003. Since Completion, the entire issued share capital of VSA(HK) was beneficially owned as to 71% by VSII, 19% by Andes and 10% by STX.

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Since the commencement of business 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.

STX has been engaging VSA(HK) for the processing of printed circuit board for electronic products since Completion. For the period commencing from the date of Completion until the date of this announcement, STX has placed processing orders in respect thereof for the aggregate processing fees of approximately HK\$896,000, payable by STX to VSA(HK). 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 these transactions involve simple processing 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, 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) and are in the normal and ordinary course of business 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, transportation and ancillary production materials, plus a customary profit margin over the cost of sales.

WAIVER FOR ONGOING CONNECTED TRANSACTIONS

As 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 announcement dated 9 December 2002, 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 up to the date of this announcement have already amounted to HK\$896,000, and STX anticipates that it will further place processing orders in respect of the Ongoing Connected Transactions for the aggregate processing fees of approximately HK\$519,000 for the month ending 31 July 2003, and approximately HK\$5.6 million during the five months ending 31 December 2003, the Directors anticipate that the aggregate processing fees receivable from these Ongoing Connected Transactions for the financial year ending 31 July 2003 and each financial year thereafter may exceed the higher of HK\$1 million or 0.03% of the book value of the Group's net tangible assets, and thereby trigger the disclosure requirements under Rule 14.25(1) of the Listing Rules. The Directors consider that it would not be practical to make announcement each time when such Ongoing Connected Transactions occur pursuant to Rule 14.25(1) of the Listing Rules.

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Accordingly, the Company has applied to the Stock Exchange 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 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 will 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 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;
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 the higher of either HK\$10 million or 3% of the latest consolidated audited net tangible assets of the Group in that financial year;
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;
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;
7. 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; and
8. in the event that any future amendments to the Listing Rules imposing more stringent requirements than as at the date of this announcement 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 shall take immediate steps to ensure compliance with such requirements within a reasonable time.

GENERAL

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.

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DEFINITIONS

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

“Andes”	Andes Electric Co., Ltd., a company incorporated in Japan, a shareholder of VSA(HK) holding 19% of its issued share capital
“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 of Hong Kong Limited
“Completion”	completion of a share purchase and subscription agreement dated 28 January 2003 and entered into by VSII, Andes, STX and VSA(HK) in accordance with its terms
“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 People’s Republic of China
“Joint Venture Agreement”	the conditional joint venture agreement dated 30 November 2002 and entered into between VSII, Andes and STX for the cooperation and joint investment in VSA(HK)
“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 ” of this announcement
“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
“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
“%”	per cent.

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

Shenzhen, 9 July 2003

* for identification purposes only

Please also refer to the published version of this announcement in The Standard dated on 10-07-2003.