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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)

CONNECTED TRANSACTION
ACQUISITION OF THE MINORITY INTERESTS IN VS HAIER

Independent Financial Adviser

Watterson Asia Limited

A letter from the Board is set out on pages 4 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.

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DEFINITIONS

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

“Acquisition”	the acquisition of the Sale Interest from Qingdao Haier by HAIVS Qingdao pursuant to the terms and conditions of the Equity Transfer Agreement, details of which are set out in the section headed “Equity Transfer Agreement” in the letter from the Board of this circular
“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
“Equity Transfer Agreement”	the conditional equity transfer agreement dated 16 May 2003 and entered into between HAIVS Qingdao, Qingdao Haier and VS Investment in relation to the Acquisition
“Group”	the Company and its subsidiaries
“Haier Group”	Qingdao Haier, its holding company, subsidiaries and affiliated companies and other subsidiaries and affiliated companies of its holding company
“HAIVS Qingdao”	海士茂電子塑膠(青島)有限公司(HAIVS Industry (Qingdao) Co., Ltd.*), a wholly foreign-owned enterprise established in the PRC and is wholly owned by VS Investment
“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 Qingdao Haier and its associates
“Latest Practicable Date”	3 June 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

DEFINITIONS

“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
“PRC”	The People’s Republic of China
“Purchase Price”	RMB14.80 million (equivalent to approximately HK\$13.96 million), being the consideration payable by HAIVS Qingdao to Qingdao Haier for the purchase of the Sale Interest
“Qingdao Haier”	青島海爾投資發展有限公司(Qingdao Haier Investment Development Limited*), a limited liability company established in the PRC, which is one of the joint venture parties of VS Haier holding 20% interest in the registered capital of VS Haier
“RM”	Malaysian Ringgit, the lawful currency of Malaysia
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Interest”	the 20% interest in the registered capital of VS Haier beneficially owned by Qingdao Haier
“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
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Shareholder(s)”	shareholder(s) of the Company
“VS Haier”	海爾威城電子塑膠製品(青島)有限公司(V.S. Haier Electronics Plastic (Qingdao) Co., Ltd.*), a sino-foreign equity joint venture established in the PRC and owned as to 80% by VS Investment and 20% by Qingdao Haier prior to the Acquisition
“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.

DEFINITIONS

“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 Acquisition
“%”	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 = RMB1.06

** for identification only*



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

6 June 2003

To the Shareholders

Dear Sirs,

**CONNECTED TRANSACTION
ACQUISITION OF THE MINORITY INTERESTS IN VS HAIER**

1. INTRODUCTION

On 16 May 2003, the Company announced that the conditional Equity Transfer Agreement was entered into by HAIVS Qingdao on that date for the acquisition of the Sale Interest from Qingdao Haier pursuant to the terms and conditions thereof. The Equity Transfer Agreement is conditional and shall become effective upon the satisfaction of the conditions set out in the paragraph “**Conditions of the Equity Transfer Agreement**” below, one of which is the compliance of the disclosure and Shareholders’ approval requirements as prescribed under the Listing Rules in connection with the connected transaction (as defined under the Listing Rules) contemplated under the Equity Transfer Agreement.

The purpose of this circular is to provide you with further information regarding the Acquisition and the Equity Transfer Agreement, 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 Acquisition and the Equity Transfer Agreement and other information of the Group.

LETTER FROM THE BOARD

2. EQUITY TRANSFER AGREEMENT

Date: 16 May 2003

- Parties: (i) HAIVS Qingdao as purchaser;
- (ii) Qingdao Haier as vendor; and
- (iii) VS Investment as covenantor waiving its pre-emptive rights in the Sale Interest.

The Acquisition

Subject to the terms and conditions of the Equity Transfer Agreement, HAIVS Qingdao has conditionally agreed to acquire from and Qingdao Haier has conditionally agreed to sell the Sale Interest, representing 20% of the entire registered capital of VS Haier.

VS Investment, being the existing shareholder of VS Haier holding 80% interest in its registered capital and a 99.99995%-owned subsidiary of the Company, has agreed to waive its pre-emptive rights in the Sale Interest.

Consideration

The Purchase Price payable by HAIVS Qingdao to Qingdao Haier for the purchase of the Sale Interest shall be RMB14.80 million (equivalent to approximately HK\$13.96 million), which was determined after arm's length negotiations among the parties and based on the amount of investment originally contributed by Qingdao Haier to the registered capital of VS Haier.

According to the audited financial statements of VS Haier for the year ended 31 December 2002, the net asset value of VS Haier as at 31 December 2002 amounted to RMB63,454,797 (equivalent to approximately HK\$59.86 million). By reference to such audited financial statements, the value of the Sale Interest as at 31 December 2002 amounted to approximately RMB12.69 million (equivalent to approximately HK\$11.97 million). The Purchase Price of RMB14.80 million (equivalent to approximately HK\$13.96 million) represents a premium of 16.63% to the net asset value of VS Haier as at 31 December 2002. The audited net loss of VS Haier before taxation for the two years ended 31 December 2002 was approximately nil and RMB10.60 million (equivalent to approximately HK\$10.00 million) respectively, and the audited net loss of VS Haier after taxation for the two years ended 31 December 2002 was approximately nil and RMB10.60 million (equivalent to approximately HK\$10.00 million) respectively.

Despite the fact that the Purchase Price was at a premium to the net asset value of VS Haier as at 31 December 2002, the Directors, including the independent non-executive Directors, consider that the purchase price is fair and reasonable as the Purchase Price represents the initial investment contributed by Qingdao Haier to VS Haier, which commenced its operation in March 2002 and is at its initial and developing stage.

The Purchase Price shall be payable in cash by HAIVS Qingdao to Qingdao Haier within 90 days from the date on which the Equity Transfer Agreement becomes effective. The Acquisition will be financed by the Group's internal resources. The Equity Transfer Agreement shall become effective upon fulfillment of all the conditions as set out in the paragraph headed "**Conditions of the Equity Transfer Agreement**" below.

LETTER FROM THE BOARD

Conditions of the Equity Transfer Agreement

The Equity Transfer Agreement shall become effective upon the fulfillment of all of the following conditions:

- (a) if necessary, the disclosure and/or shareholders' approval requirements as prescribed under the Listing Rules in connection with the connected transactions (as defined under the Listing Rules) contemplated under the Equity Transfer Agreement being duly complied with by the Company, or waivers from strict compliance of such disclosure and/or shareholders' approval requirements being granted by the Stock Exchange subject to such terms and conditions as HAIVS Qingdao may agree; and
- (b) all consents and approvals of the original examination and approving authority and the company registration authority in the PRC required for the transfer of the Sale Interest under the Acquisition being obtained and the registration of the relevant change at the State Administration of Industry and Commerce of the PRC being duly completed.

If any of the above conditions are not fulfilled on or before 5:00 p.m. on 13 September 2003, then unless otherwise agreed by the parties in writing, the Equity Transfer Agreement shall forthwith lapse and be of no further effect, and no party thereof shall have any claim against or liability to the other parties, save in respect of any antecedent breaches of the Equity Transfer Agreement. HAIVS Qingdao has undertaken that it will not procure the satisfaction of the condition (b) above until the condition (a) above has been satisfied.

3. INFORMATION OF THE GROUP AND VS HAIER

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.

VS Haier is a sino-foreign equity joint venture established in Qingdao, Shandong Province the PRC on 2 August 2001 with a total registered capital of RMB73.98 million (equivalent to approximately HK\$69.79 million). Prior to the Equity Transfer Agreement becoming effective, the registered capital of VS Haier is owned as to 20% by Qingdao Haier and 80% by VS Investment, a 99.99995%-owned subsidiary of the Company. The principal business of VS Haier is the manufacturing and selling of plastic moulded products and parts for electronic products such as refrigerators, washing machines, chillers and air conditioners.

Upon the Equity Transfer Agreement becoming effective, the registered capital of VS Haier will be owned as to 80% by VS Investment and 20% by HAIVS Qingdao, which is a wholly owned subsidiary of VS Investment. The Directors intend to change the name of VS Haier to 青島偉勝電子塑膠有限公司 (Qingdao GS Electronics Plastic Co., Ltd.*) after the Equity Transfer Agreement becomes effective pursuant to its terms and conditions. Upon the Equity Transfer Agreement becoming effective, VS Haier will become a wholly owned subsidiary of VS Investment and a 99.99995%-owned indirect subsidiary of the Company.

LETTER FROM THE BOARD

4. REASONS FOR THE ACQUISITION

Given the Qingdao Haier's interest in VS Haier, Qingdao Haier and/or other members of the Haier Group have been the major customers of VS Haier since its commencement of operation in March 2002. For the year ended 31 July 2002 and six months ended 31 January 2003, the sales of VS Haier to members of the Haier Group amounted to RMB11.88 million (equivalent to approximately HK\$11.21 million) and RMB43.60 million (equivalent to approximately HK\$41.13 million) respectively, representing 91.67% and 97.89% of VS Haier's total turnover for the relevant periods, respectively.

The Group's total turnover from the plastic injection and moulding business for the six months ended 31 January 2003 was approximately HK\$276.22 million, representing an increase of 66.74% over the corresponding six months in 2002. Such increase was mainly attributable to the increase in sales to members of the Haier Group. However, the operational profit margin of the Group's plastic injection and moulding business declined from 26.97% for the six months ended 31 January 2002 to 15.88% for the corresponding six months in 2003. Further, an audited net loss of RMB10.60 million (equivalent to approximately HK\$10.00 million) has been recorded by VS Haier for the year ended 31 December 2002. In light of the significant decrease in the operational profit margin of the Group's plastic injection and moulding business and the loss recorded by VS Haier, the Directors have been looking into measures to streamline the Group's operations in Qingdao and to reduce the Group's reliance on the Haier Group.

Upon completion of the Acquisition, VS Haier may diversify its customers base by seeking other business opportunities without the influence of Qingdao Haier, and the risk of over-reliance on the Haier Group can be thereby avoided.

Further, the operation and management of VS Haier will be wholly controlled by the Group. The Directors believe that the Acquisition will enhance the efficiency of VS Haier's administration. The Directors further believe that, by sharing of the Group's production facilities and human resources of HAIVS Qingdao and VS Haier, the Group's resources can be utilised more efficiently and its operational expenses in Qingdao can be reduced. It is currently expected that the Acquisition can reduce the operational expenses of the Group's operation in Qingdao by approximately RMB9.55 million (equivalent to approximately HK\$9.01 million) per annum. The Directors consider that the Acquisition can enhance the Group's profitability in a long run.

The Directors, including the independent non-executive Directors, consider that the Acquisition is on normal commercial terms and is in the interest of the Group and the Shareholders as a whole. The Directors are of the view of that the terms and conditions of the Equity Transfer Agreement are fair and reasonable as far as the Independent Shareholders are concerned.

5. CONNECTED TRANSACTION

Given that Qingdao Haier is a substantial shareholder of VS Haier which is a non-wholly owned subsidiary of the Company and the Purchase Price exceeded the higher of HK\$10 million or 3% of the book value of the Group's net tangible assets, the Acquisition constitutes a connected transaction for the Company under the Listing Rules and is subject to the disclosure requirements and the Independent Shareholders' approval in general meeting under Rule 14.26 of the Listing Rules.

LETTER FROM THE BOARD

Under the Listing Rules, any connected person interested in the Acquisition and its associates will be required to abstain from voting on the resolutions approving the Acquisition at the relevant general meeting. The Directors confirm that none of Qingdao Haier, any person interested in the Acquisition and their respective associates is a Shareholder as at 16 May 2003 and therefore, no Shareholder would have been required to abstain from voting if a general meeting of the Shareholders had been convened to approve the Acquisition. Accordingly, VVS Co., Ltd., a controlling Shareholder holding approximately 51.98% interest in the entire issued share capital of the Company and being one of the Independent Shareholders, has given a written certificate to approve the Acquisition. VVS Co., Ltd. has no interest in the Acquisition and is independent of, and is not connected with, Qingdao Haier, its subsidiaries and their respective 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

* *for identification only*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



V.S. INTERNATIONAL GROUP LIMITED

威鉞國際集團有限公司

(incorporated in the Cayman Islands with limited liability)

6 June 2003

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

Dear Sir or Madam,

On 16 May 2003, the Company announced that the conditional Equity Transfer Agreement was entered into by HAIVS Qingdao on that date for the acquisition of the Sale Interest from Qingdao Haier pursuant to the terms and conditions thereof. The Equity Transfer Agreement is conditional and shall become effective upon, among other conditions, the compliance of the disclosure and Shareholders' approval requirements as prescribed under the Listing Rules in connection with the connected transaction (as defined under the Listing Rules) contemplated under the Equity Transfer Agreement.

We have been appointed as members of the Independent Board Committee to consider the terms of the Acquisition and the Equity Transfer Agreement. Our role as Independent Board Committee is to advise the Independent Shareholders as to whether the terms and conditions of the Acquisition and the Equity Transfer Agreement 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 Acquisition and the Equity Transfer Agreement are set out in the circular of the Company dated 6 June 2003 to 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 and conditions of the Acquisition and the Equity Transfer Agreement. We have also considered the advice given by Watterson. We concur with the views of Watterson that the terms and conditions of the Acquisition and the Equity Transfer Agreement 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,

V.S. International Group Limited

Diong Tai Pew Cheung Kwan Hung, Anthony

Independent Non-executive Directors

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 Acquisition and the Equity Transfer Agreement.

Watterson Asia Limited

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

6 June 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,

Connected transaction relating to the acquisition of 20% interest in VS Haier

We refer to our appointment as independent financial adviser to the Independent Board Committee in relation to the connected transaction involving the acquisition from Qingdao Haier by HAIVS Qingdao of 20% interest in VS Haier that the Group does not already own.

Our role as independent financial adviser is to give our opinion as to whether the terms of the Acquisition and the Equity Transfer Agreement are fair and reasonable to Independent Shareholders. Details of the Acquisition and the Equity Transfer Agreement and the background leading to this connected transaction are contained in the letter from the Board contained in the circular dated 6 June 2003 (the "**Circular**") to Shareholders. Our letter forms part of the Circular and capitalised terms used in this letter have the same meanings as defined in the Circular.

In putting forth our advice, we have relied on the Company to provide us with all relevant information including the terms of the Equity Transfer Agreement and the latest unaudited financial information of VS Haier to 30 April 2003. In addition, we have relied on representations from the Directors relating to the future operations of both HAIVS Qingdao and VS Haier following completion of the Equity Transfer Agreement. We have assumed such representations were accurate at the time they were made and continue to be so as at the date of the Circular. We have been advised by the Directors that no material facts have been omitted and we are not aware of any facts or circumstances which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. We consider that we have sufficient information to reach an informed view and to provide a reasonable basis for our recommendation. 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 Equity Transfer Agreement, we have taken into consideration the following factors and reasons:

Background to the Equity Transfer Agreement

The Group is principally engaged in the manufacturing and sales of plastic moulded products and parts, assembling of electronic products as well as mould design and fabrication services. Based on the Group's unaudited management accounts for the six months to 31 January 2003, plastic injection and moulding business accounted for approximately 46.49% of the Group's turnover whereas assembling of electronic products as well as mould design and fabrication services accounted for the remaining 50.72% and 2.79% respectively. For the six months to 31 January 2003, sales generated from the plastic injection and moulding business were approximately HK\$276.22 million, representing an increase of 66.74% over the corresponding six months period in 2002. The increase was mainly attributable to additional sales generated by HAIVS Qingdao and VS Haier where both their main customer is the Haier Group. As the operations at HAIVS Qingdao and VS Haier have yet become profitable, this significantly contributed to the decline in the operational profit margin of the Group's plastic injection and moulding business to 15.88% for the six months to 31 January 2003, as compared to 26.97% over the corresponding six months period in 2002, despite the increase in sales generated by HAIVS Qingdao and VS Haier during the same corresponding periods. Audited net loss of VS Haier for the year ended 31 December 2002 was approximately RMB10.60 million (equivalent to approximately HK\$10.00 million). Such operating loss was due to the fact that main products sold by VS Haier to the Haier Group were plastic parts for household electrical appliances that earned only a marginal profit margin. As a result of the above losses, we understand that the Directors have been looking into ways to streamline the Group's operations in Qingdao and to reduce the Group's reliance on the Haier Group.

Upon completion of the Acquisition, VS Haier will become a wholly owned subsidiary of VS Investment, which is a 99.99995%-owned subsidiary of the Company. We understand from the Company that it is currently expected that the Acquisition will bring about an annual costs savings of approximately RMB9.55 million (equivalent to approximately HK\$9.01 million) to the Group. Such costs savings will be generated from enhancement of the operational efficiencies of both HAIVS Qingdao and VS Haier by streamlining their operations, including the sharing of the Group's production facilities and human resources. As noted in the section headed "**Reasons for the Acquisition**" in the "**Letter from the Board**" of the Circular, the operation and management of VS Haier will be wholly controlled by the Group, which will further enhance the efficiency of VS Haier's administration. In addition, VS Haier will be in a position to diversify its customer base by seeking other business opportunities without the influence of Qingdao Haier.

Based on the above plans following the completion of the Acquisition, we concur with the Directors that the Acquisition is in the Group's interest.

Terms of the Equity Transfer Agreement

Under the Equity Transfer Agreement, the Purchase Price in respect of the Acquisition is RMB14.80 million (equivalent to approximately HK\$13.96 million). The Purchase Price payable by HAIVS Qingdao to Qingdao Haier for the purchase of the Sale Interest was determined after arm's length negotiations among the parties and based on the amount of investment originally contributed by Qingdao Haier to the registered capital of VS Haier. Based on the audited financial statements of VS Haier for the year ended 31 December 2002, the net asset value of VS Haier as at 31 December 2002 was RMB63.45 million (equivalent to approximately HK\$59.86 million). However, based on the latest available unaudited management accounts of VS Haier, the net asset value was approximately RMB60.02 million (equivalent to approximately HK\$56.62 million) as at 30 April

LETTER FROM WATTERSON

2003. During the four months period to 30 April 2003, VS Haier recorded sales of RMB27.73 million (equivalent to approximately HK\$26.16 million) and an operating loss of RMB2.98 million (equivalent to approximately HK\$2.81 million) respectively. The Purchase Price, therefore, represents a premium of approximately 23.26% over the unaudited net asset value of VS Haier as at 30 April 2003 attributable to the Sale Interest. However, we have considered the following:

- the Purchase Price represents the initial share capital investment of Qingdao Haier in VS Haier, which is still at its initial stage of development since commencement in March 2002;
- As a 80%–owned subsidiary of VS Investment, which is owned as to 99.99995% by the Company, VS Haier is primarily managed by the Company;
- Haier Group is VS Haier’s current major customer and accounted for approximately 97.89% of its total turnover for the six months to 31 January 2003;
- the Acquisition enables the Group to streamline the operations of both HAIVS Qingdao and VS Haier, which will increase operational efficiencies and bring about an estimated annual cost savings of approximately RMB9.55 million (equivalent to approximately HK\$9.01 million), and allows the Group to diversify its customer base by seeking other business opportunities without the influence of Qingdao Haier; and
- Although VS Haier is currently loss-making, we believe the abovementioned cost savings and revenue enhancement opportunities to the Group arising from the Acquisition will more than offset the negative impact on the earnings of the Group.

Having considered the above factors and benefits, we are of the opinion that both the basis of determining the Purchase Price and the Purchase Price, although represents a premium of 23.26% over the latest available unaudited net asset value of VS Haier as at 30 April 2003, are fair and reasonable so far as the Independent Shareholders are concerned.

Funding for the Acquisition and financial effects to the Group

Payment for the Acquisition will be satisfied by the Group’s internal cash reserves. As such, the Acquisition will not increase the Group’s gearing level.

Given the Acquisition will increase the Company’s shareholding in VS Haier from approximately 80% to approximately 100% and that VS Haier is currently loss-making, the Acquisition may impact the earnings of the Group in the short-term. However, we believe the costs savings and revenue enhancement opportunities arising from the Acquisition as mentioned above will outweigh the short-term negative impact on the earnings of the Group.

Recommendation

Having considered the above principal factors and reasons, we are of the view that the terms of the Acquisition and the Equity Transfer 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 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	14,660,629 ordinary shares of RM1 each (L) (Notes 3 and 14)
	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 15)
Gan Chu Cheng	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)

Name of Director (Note 1)	The Company/ name of associated corporation	Capacity	Number and class of securities (Note 2)
	V.S. Industry Berhad	Beneficial owner	14,068,843 ordinary shares of RM1 each (L) (Notes 6 and 14)
	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 15)
	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 Co., Ltd.	Beneficial owner	3,182 ordinary shares of HK\$1 each (L)
	V.S. Industry Berhad	Beneficial owner	6,862,825 ordinary shares of RM1 each (L) (Notes 9 and 14)
	V.S. Industry Berhad	Interest of spouse	229,766 ordinary shares of RM1 each (L) (Note 10)
	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 11 and 15)
	V.S. Ashin Technology Sdn. Bhd. (Note 8)	Beneficial owner	746,667 ordinary shares of RM1 each (L)

Name of Director <i>(Note 1)</i>	The Company/ name of associated corporation	Capacity	Number and class of securities <i>(Note 2)</i>
	V.S. Technology Sdn. Bhd. <i>(Note 5)</i>	Beneficial owner	50,000 ordinary shares of RM1 each (L)
Gan Tiong Sia	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	2,626,355 ordinary shares of RM1 each (L) <i>(Notes 12 and 14)</i>
	V.S. Industry Berhad	Interest of spouse	10,000 ordinary shares of RM1 each (L) <i>(Note 13)</i>
	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. <i>(Note 5)</i>	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 long position in the share and underlying shares of the Company or its associated corporations.
3. Mr. Beh Kim Ling's interests in the long position in these shares comprise 14,639,629 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 14 below.
4. Mr. Beh Kim Ling's interests in the long position in these shares comprise 5 shares registered under his name and the 3,599,995 outstanding options granted to him under the Option Deed as referred to in note 15 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 the long position in these shares comprise 11,811,843 shares registered under her name, 1,486,000 shares and 750,000 shares held in bare trust by Kenanga Nominees (Tempatan) Sdn. Bhd. and Hong Leong Finance Berhad, respectively, 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 14 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 the long position in these shares comprise 5 shares registered under her name and the 3,599,995 outstanding options granted to her under the Option Deed as referred to in note 15 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 the long position in these shares comprise 6,441,825 shares registered under his name, 400,000 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 14 below. Under the SF Ordinance, Mr. Gan Sem Yam is deemed to be interested in all these shares.
10. These shares are registered in the name of and beneficially owned by Madam Ling Sok Mooi. Madam Ling Sok Mooi is the spouse of Mr. Gan Sem Yam, 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 Ling Sok Mooi is interested.
11. Mr. Gan Sem Yam's interests in the long position in these shares comprise 5 shares registered under his name and the 3,599,995 outstanding options granted to him under the Option Deed as referred to in note 15 below.
12. Mr. Gan Tiong Sia's interests in the long position in these shares comprise 2,576,355 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 14 below.
13. 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.
14. 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:

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

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

Name of Directors	Number of outstanding options
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 2002, 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.

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 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%

Name of shareholder	Number of Shares (Note 1)	Nature of interest	Approximate percentage of interest
Value Partner Limited	66,234,000 (L)	Beneficial owner	8.09%
Cheah Cheng Hye	66,234,000 (L)	Interest of a controlled corporation (Note 3)	8.09%

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 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.
 3. These Shares were registered in the name of and beneficially owned by Value Partner 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 Partner 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 Holding Hong Kong Co., Limited	Andes Electric Co., Ltd.	2,964,000 ordinary shares of HK\$1 each	19%
VSA Holding Hong Kong Co., Limited	Sumitronics Hong Kong Ltd.	1,560,000 ordinary shares of HK\$1 each	10%
VS Haier	Qingdao Haier	Registered capital of RMB14,800,000	20%

- (c) Andes Electric Co., Ltd. and Sumitronics Hong Kong Ltd. has 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 Holding Hong Kong Co., Limited ("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 type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities 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 2002, the date to which the latest published audited accounts of the Group were made up.
- (b) The secretary of the Company is Ms. Chong Siew Peng, who is a member of the Chartered Association of Certified Accountants in the United Kingdom 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 21 June 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;
- (c) the Equity Transfer Agreement; and
- (d) the service contracts referred to in paragraph 3 of this appendix.