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

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**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.

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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)*

**MAJOR AND CONNECTED TRANSACTIONS**

**SIGNING OF JOINT VENTURE AGREEMENT,  
SHARE PURCHASE AND SUBSCRIPTION AGREEMENT,  
TECHNICAL LICENCE AND ASSISTANCE AGREEMENT  
AND MATERIAL SUPPLY AGREEMENT  
PROPOSED GRANT OF CALL OPTION**

**Independent Financial Adviser**

**Watterson Asia Limited**

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A letter from the Board is set out on pages 4 to 13 of this circular, a letter from the Independent Board Committee is set out on page 14 of this circular and a letter from Watterson is set out on pages 15 to 18 of this circular.

10 March 2003

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## DEFINITIONS

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

“Andes”	Andes Electric Co., Ltd., a company incorporated in Japan
“Board”	the board of Directors
“Call Option”	the option granted by VSII to Andes and STX for the purchase of certain Shares from VSII, details of which are set out in the paragraph “ <b>The Call Option</b> ” under the section headed “ <b>Joint Venture Agreement and Call Option</b> ” below
“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
“Completion”	completion of the Share Purchase and Subscription Agreement in accordance with its terms
“Director(s)”	the director(s) 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 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 Andes, STX, any connected person interested in the Call Option and their respective associates
“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 the PRC for the manufacture of, among other things, the Products, details of which are set out in the section headed “ <b>Joint Venture Agreement and Call Option</b> ” below or, as the context so requires, such joint venture agreement as supplemented by the Supplemental Joint Venture Agreement
“Latest Practicable Date”	7 March 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

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## DEFINITIONS

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<b>“Material Supply Agreement”</b>	the conditional material supply agreement dated 28 January 2003 and entered into between STX, VSA(HK) and VSA China containing the general conditions for the supply of such necessary production materials for the manufacturing of the Products by STX to each of VSA(HK) and VSA China, details of which are set out in the section headed <b>“Material Supply Agreement”</b> below
<b>“Option Deed”</b>	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. Each of EVS Co., Ltd., Mr. Beh Kim Ling, Madam Gan Chu Cheng and Mr. Gan Sem Yam has paid HK\$1 to VS Investment as consideration for the grant of such options
<b>“PRC”</b>	The People’s Republic of China
<b>“Products”</b>	printed circuit board and its related electronics semi-finished and/or finished products using the SMT Technologies
<b>“RM”</b>	Malaysian Ringgit, the lawful currency of Malaysia
<b>“Sale Shares”</b>	the 29 Shares beneficially owned by VSII, representing 29% of the existing issued share capital of VSA(HK)
<b>“Shareholder(s)”</b>	shareholder(s) of the Company
<b>“Share(s)”</b>	share(s) of HK\$1 each in the share capital of VSA(HK)
<b>“Share Purchase and Subscription Agreement”</b>	the conditional share purchase and subscription agreement dated 28 January 2003 and entered into by VSII, Andes, STX and VSA(HK), details of which are set out in the section headed <b>“Share Purchase and Subscription Agreement”</b> below
<b>“SMT Technologies”</b>	surface mounting technologies, a specialised manufacturing process used for the production of the Products
<b>“Stock Exchange”</b>	The Stock Exchange of Hong Kong Limited
<b>“STX”</b>	Sumitronics Hong Kong Ltd., a company incorporated in Hong Kong

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## DEFINITIONS

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<b>“Subscription Shares”</b>	the 15,599,900 Shares to be subscribed by each of VSII, Andes and STX proportional to its then shareholding ratio in VSA(HK) upon Completion pursuant to the Share Purchase and Subscription Agreement
<b>“Supplemental Joint Venture Agreement”</b>	the supplemental agreement dated 28 February 2003 and entered into between VSII, Andes and STX supplementing the terms of the Call Option under the Joint Venture Agreement, details of which are set out in the paragraphs headed <b>“Supplemental Joint Venture Agreement”</b> and <b>“The Call Option”</b> in the section headed <b>“Joint Venture Agreement and Call Option”</b> below
<b>“Technical Licence and Assistance Agreement”</b>	the conditional technical licence and assistance agreement dated 28 January 2003 and entered into between Andes and VSA(HK) for the provision by Andes to VSA(HK) and/or VSA China of the SMT Technologies for the manufacturing of the Products, and such other technological support and assistance in connection thereof, details of which are set out in the section headed <b>“Technical Licence and Assistance Agreement”</b> below
<b>“Transactions”</b>	the transactions as referred to in this circular
<b>“US\$”</b>	dollars of the United States of America, the lawful currency of the United States of America
<b>“VSA China”</b>	威士茂安商住電子科技(珠海)有限公司(VSA Electronics Technology (Zhuhai) Co., Ltd.*), a wholly foreign owned enterprise established in Zhuhai, the PRC jointly by VSII and VSA(HK)
<b>“VSA(HK)”</b>	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 wholly owned subsidiary of the Company
<b>“VSII”</b>	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
<b>“VS Investment”</b>	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.
<b>“Watterson”</b>	Watterson Asia Limited, the independent financial adviser to the Independent Board Committee in relation to the Call Option
<b>“%”</b>	per cent.

*\* for identification only*

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LETTER FROM THE BOARD

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**V.S. INTERNATIONAL GROUP LIMITED**

**威鉞國際集團有限公司**

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

***Executive Directors:***

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

***Non-executive Director:***

Mr Gan Tiong Sia

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

Mr Diong Tai Pew  
Mr Cheung Kwan Hung, Anthony

***Registered Office:***

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

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

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

10 March 2003

*To the Shareholders*

Dear Sirs

**MAJOR AND CONNECTED TRANSACTIONS**

**1. INTRODUCTION**

On 9 December 2002, the Company announced that the conditional Joint Venture Agreement was entered into by VSII on 30 November 2002 for the cooperation and joint investment in the PRC for the manufacture of, among other things, the Products in the PRC with Andes and STX, the proposed signing of the Share Purchase and Subscription Agreement, the Technical Licence and Assistance Agreement and the Material Supply Agreement and the granting of the Call Option.

The Joint Venture Agreement, which comprises, among other matters, the granting of the Call Option, is conditional and shall become effective upon the satisfaction of the conditions set out in the paragraph “**Duration and conditions of the Joint Venture Agreement**” below, one of which is the entering into by the relevant parties of the Share Purchase and Subscription Agreement, the Technical Licence and Assistance Agreement and the Material Supply Agreement on or prior to 31

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## LETTER FROM THE BOARD

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January 2003. The relevant parties entered into the Share Purchase Agreement, the Technical Licence and Assistance Agreement and the Material Supply Agreement on 28 January 2003, particulars of which were announced by the Company in its announcement dated 28 January 2003 and are set out in this circular.

The purpose of this circular is to provide you with further information regarding the grant of the Call Option, which forms an integral part of the Joint Venture Agreement (as so amended), the Joint Venture Agreement, the Supplemental Joint Venture Agreement, the Share Purchase Agreement, the Technical Licence and Assistance Agreement and the Material Supply 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 grant of the Call Option and other information of the Group.

### 2. JOINT VENTURE AGREEMENT AND CALL OPTION

The Call Option is one of the terms of the Joint Venture Agreement and shall only take effect upon the Joint Venture Agreement becoming effective. The details of the Joint Venture Agreement and the Supplemental Joint Venture Agreement are as follows:

#### **The Joint Venture Agreement**

Date: 30 November 2002  
Parties: VSII, Andes and STX

Both Andes and STX are independent of and not connected with the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates (as defined under the Listing Rules). So far as the Directors are aware after making reasonable enquiries, save for the Transactions and other cooperations as contemplated under the Joint Venture Agreement, each of Andes and STX and their respective associates are independent of and not connected with each other.

#### *(A) VSA(HK) and VSA China*

Under the Joint Venture Agreement, VSII, a wholly owned subsidiary of the Company, agreed with Andes and STX to cooperate and jointly invest in the manufacture of, among other things, the Products and the assembly of accessory electronic information products in the PRC through their proposed joint investment in VSA(HK), and VSA(HK)'s investment in VSA China.

VSA(HK) is a wholly owned subsidiary of the Company incorporated in Hong Kong, the entire issued share capital of which is currently owned by VSII, another wholly owned subsidiary of the Company. VSA(HK) and VSII signed the articles of association for the establishment of VSA China, a wholly foreign owned enterprise in Zhuhai, the PRC, on 25 November 2002. Pursuant to such articles of association of VSA China, the total investment and the registered capital of VSA China will be US\$28,000,000 and US\$15,000,000 respectively. VSII will contribute US\$14,250,000 comprising US\$12,800,000 of equipment and US\$1,450,000 in cash and representing 95% of the registered capital of VSA China, whereas VSA(HK) will contribute US\$750,000 in cash, representing 5% of the registered capital of VSA China. VSA China obtained its PRC business licence on 2 December 2002 and became formally established on that date.

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## LETTER FROM THE BOARD

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### *(B) Administration of the Company*

Upon Completion whereby the Joint Venture Agreement will become effective, the entire issued share capital of VSA(HK) will be beneficially owned as to 71% by VSII, 19% by Andes and 10% by STX. The Joint Venture Agreement will constitute an agreement among the shareholders of VSA(HK) regarding, among other matters, the joint investment, administration, operation and business activities of VSA(HK). In particular, it is provided that the board of directors of VSA(HK) shall consist of five directors and each of VSII, Andes and STX shall be entitled to nominate three, one and one director(s) of VSA(HK), respectively.

There is no provision in the Joint Venture Agreement regulating the appointment of directors in VSA China.

### *(C) The cooperations*

#### Purchase and subscription of Shares, technical support and supply of raw materials

Under the Joint Venture Agreement, each of VSII, Andes and STX agreed to enter into good faith negotiations toward the consummation of the Share Purchase and Subscription Agreement, the Technical Licence and Assistance Agreement and the Material Supply Agreement. The Share Purchase and Subscription Agreement, the Technical Licence and Assistance Agreement and the Material Supply Agreement were entered into by the relevant parties on 28 January 2003, details of which are set out in the sections headed “**Share Purchase and Subscription Agreement**”, “**Technical Licence and Assistance Agreement**” and “**Material Supply Agreement**” below, respectively.

#### Sales of the Products

Under the Joint Venture Agreement, VSA(HK) and STX may enter into sales contract for the sales and marketing of the Products by STX and the parties agreed to negotiate in good faith for the terms of thereof after the date of the Joint Venture Agreement. No agreement has been reached by the relevant parties as at the Latest Practicable Date.

#### Financial supports

Under the Joint Venture Agreement, VSII agreed to use its best endeavours to assist VSA(HK) in raising further funds required by VSA(HK) for its business development without the assistance of Andes and STX provided that unless VSII agrees otherwise, VSII shall not be required to provide any guarantee or other security(ies) in respect of such further funds to be raised by VSA(HK).

### *(D) Duration and conditions of the Joint Venture Agreement*

The Joint Venture Agreement shall take effect from the date of Completion and shall continue until terminated pursuant to its terms. It was agreed by the parties that, should the relevant parties fail to reach agreement on the terms and conditions of, and to enter into, any of the Share Purchase and Subscription Agreement, the Technical Licence and Assistance Agreement and the Material Supply Agreement on or prior to 31 January 2003, or Completion fails to take place in accordance with its terms and conditions, the Joint Venture Agreement shall lapse and shall have no effect on any of the parties.



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## LETTER FROM THE BOARD

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### **The Supplemental Joint Venture Agreement**

The completion of the Call Option may constitute notifiable transactions and/or connected transactions under Chapter 14 of the Listing Rules and therefore may subject to the compliance of the relevant disclosure and/or shareholders' approval requirements thereunder. VSII, Andes and STX entered into the Supplemental Joint Venture Agreement on 28 February 2003 pursuant to which, among other matters, the parties agreed that the completion of the Call Option will be conditional upon the compliance of the relevant Listing Rules requirements. Details of the terms and conditions of the Call Option, as supplemented by the Supplemental Joint Venture Agreement, are set out in the paragraph "**The Call Option**" below.

Save as aforesaid, the Joint Venture Agreement (as so amended) remains in full force and effect.

### **The Call Option**

Under the Joint Venture Agreement, VSII has conditionally agreed to grant to Andes and STX at nil consideration an option to purchase such additional number of Shares 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.

#### Consideration

The purchase price payable by the parties exercising such option shall be the higher of (i) HK\$1 per Share 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.

As Completion has not taken place and no substantial operation of VSA(HK) and/or VSA China has commenced as at the Latest Practicable Date, the net asset value of VSA(HK) as at the Latest Practicable Date should represent its then nominal value of the issued Shares (being HK\$100). As such, the Directors consider that independent valuation of VSA(HK), being the subject matter of the Call Option, is unnecessary.

#### Exercise of the Call Option

There is no time limit for the exercise of the Call Option under the Joint Venture Agreement. In order to exercise the Call Option, Andes or, as the case may be, STX ("**Exercising Party**") shall serve a written notice ("**Call Option Notice**") on VSII, in which the number of Shares to be purchased shall be specified, provided that each of STX and Andes may exercise the Call Option once only.

#### Conditions of the Call Option

The Call Option is one of the terms of the Joint Venture Agreement and shall only take effect upon the Joint Venture Agreement becoming effective.

Completion of the Call Option in accordance with the terms thereof shall be conditional upon the necessary requirements as prescribed under the Listing Rules in connection with the notifiable transactions and/or connected transactions (as defined under the Listing Rules) being duly complied with by the Company, or waivers from strict compliance thereof being

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## LETTER FROM THE BOARD

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granted by the Stock Exchange subject to such terms and conditions as VSII may agree. If such condition is not fulfilled on or before the date falling 90 days after the date of receipt of the Call Option Notice by VSII, the Call Option (in respect of the Exercising Party only) granted shall lapse and be of no further effect, and neither VSII nor the Exercising Party shall have any claim against or liability to the other.

### Completion of the Call Option

Completion of the Call Option shall take place at a place and time to be agreed by VSII and the Exercising Party on the 10th business day after the satisfaction of the condition as referred to in the sub-paragraph “**Conditions of the Call Option**” above.

Upon Completion and assuming the Call Option is having exercised in full by Andes and/or STX, the issued share capital of VSA(HK) will then be owned as to 51% by VSII and as to an aggregate of 49% by Andes and STX.

The Directors do not have any present intention as to the use of proceeds arising from the disposal of Shares pursuant to any exercise of the Call Option.

The following ancillary agreements were also entered into by the relevant parties pursuant to the Joint Venture Agreement, namely, the Share Purchase and Subscription Agreement, the Technical Licence and Assistance Agreement and the Material Supply Agreement.

### 3. SHARE PURCHASE AND SUBSCRIPTION AGREEMENT

Date: 28 January 2003

Parties: VSII, as the vendor of the Sale Shares and as one of the subscribers of the Subscription Shares

Andes, as one of the purchasers of the Sale Shares and as one of the subscribers of the Subscription Shares

STX, as one of the purchasers of the Sale Shares and as one of the subscribers of the Subscription Shares

VSA(HK), a wholly-owned subsidiary of the Company, as the issuer of the Subscription Shares

#### **Sale Shares to be sold**

Upon Completion, VSII shall sell to each of Andes and STX 19 and 10 Shares, respectively, which represent 19% and 10% of the then issued share capital of VSA(HK), respectively.

#### **Subscription Shares to be subscribed for**

Upon Completion, each of VSII, Andes and STX shall subscribe for an aggregate of 15,599,900 new Subscription Shares proportional to their then shareholding ratio in VSA(HK) as follows:

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## LETTER FROM THE BOARD

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VSII (11,075,929 Shares)(71%)

Andes (2,963,981 Shares)(19%)

STX (1,559,990 Shares)(10%)

### **Consideration**

The purchase price per Sale Share payable by each of Andes and STX to VSII for the purchase of the Sale Shares shall be HK\$1, which was determined after arm's length negotiations among the parties with reference to the unaudited net asset value of VSA(HK) as at the date of the Share Purchase and Subscription Agreement. The aggregate purchase price of HK\$29 was paid in cash by each of Andes and STX to VSII upon the signing of the Share Purchase and Subscription Agreement.

The subscription price per Subscription Share payable by each of VSII, Andes and STX to VSA(HK) for the subscription of the Subscription Shares shall be HK\$1, which was determined after arm's length negotiations among the parties with reference to the unaudited proforma net asset value of VSA(HK) as at the date of the Share Purchase and Subscription Agreement as adjusted to reflect the proposed investment by VSA(HK) in VSA China. The respective subscription price of HK\$11,075,929, HK\$2,963,981 and HK\$1,559,990 shall be payable in cash by each of VSII, Andes and STX, respectively, to VSA(HK) upon Completion.

### **Conditions of the Share Purchase and Subscription Agreement**

Completion of the Share Purchase and Subscription Agreement is conditional upon, among other things:

- (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, including ongoing connected transactions) contemplated under the Joint Venture Agreement, the Technical Licence and Assistance Agreement and/or the Material Supply Agreement and such other transaction(s) contemplated thereunder (including but not limited to the grant of Call Option by VSII and the completion of the Call Option pursuant to the exercise thereof) 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 the Company may agree; and
- (b) all consents or approval of any relevant governmental authorities or other relevant third parties in Hong Kong, or elsewhere which are required for the entry into and the implementation of the Share Purchase and Subscription Agreement having been obtained, including all filings with any relevant governmental authorities or other relevant third parties in Hong Kong, or elsewhere which are required for the entering into and the implementation of the Share Purchase and Subscription Agreement having been made.

VSII may at its absolute discretion at any time waive any of the above conditions (to the extent it is capable of waiving) and such waiver may be made subject to such terms and conditions as are determined by VSII.

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## LETTER FROM THE BOARD

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If any of the above conditions are not fulfilled or, as the case may be, waived by VSII on or before 5:00 p.m. on 30 June 2003 (or such later date as the parties may agree in writing), the Share Purchase and Subscription Agreement shall 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 Share Purchase and Subscription Agreement.

### **Completion of the Share Purchase and Subscription Agreement**

Completion of the Share Purchase and Subscription Agreement shall take place on the 10th business day after the fulfilment (or waiver) of the conditions as set out in the paragraph “**Conditions of the Share Purchase and Subscription Agreement**” above.

#### **4. TECHNICAL LICENCE AND ASSISTANCE AGREEMENT**

Date: 28 January 2003

Parties: Andes as technology provider and licensor

VSA(HK) as technology licensee

### **Provision of SMT Technologies and related technical information**

Under the Technical Licence and Assistance Agreement, Andes shall provide and grant to VSA(HK) (with full power to sub-licence to VSA China) a non-exclusive licence to use the SMT Technologies and/or the related knowhow, experience, data and all other technical or commercial information for the manufacturing of the Products and/or the operation of the SMT Technologies. Andes shall also provide VSA(HK) and/or VSA China with such technological support and assistance, such as provision of qualified engineers, training and/or seminars to the staff of VSA(HK) and/or VSA China, for the effective and efficient manufacturing of the Products and the smooth operation of the SMT Technologies.

### **Royalty and other consideration payable**

In consideration of the licensing of the SMT Technologies and the related technical information by Andes under the Technical Licence and Assistance Agreement, VSA(HK) shall pay to Andes a royalty (the “**Royalty**”) to be charged on every Product sold by VSA China which will be calculated in accordance with the following formula:

$$R = S \times Q \times 2\%$$

where:

R is the amount of Royalty payable by VSA(HK)

S is the aggregate line assembly cost and the cost for processes involving the use of automatic insertion technology and/or SMT Technologies (“**AI/SMT cost**”) per item of the Product sold as set out in the quotation, to which the Product sold relates, given by VSA China and confirmed by the relevant customer

Q is the quantity of the Product sold

It was further provided that, for the purposes of calculating the line assembly cost and the AI/SMT cost, Andes and VSA(HK) shall, in respect of each quotation given by VSA China

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## LETTER FROM THE BOARD

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and confirmed by the relevant customer, negotiate in good faith whether any item(s) should be included or excluded for the purpose of such calculation. In the event that Andes and VSA(HK) fail to agree which item(s) is/are to be included or excluded for such purpose, the line assembly cost and the AI/SMT cost as set out in the quotation shall be used for calculating the line assembly cost and the AI/SMT cost.

The Royalty shall be payable with effect from 1 August 2003 until 31 July 2008 subject to the early termination of the Technical Licence and Assistance Agreement. Andes and VSA(HK) agreed that the amount of the Royalty (as so adjusted as aforesaid) shall be further reviewed by the parties after 31 July 2008 with reference to the then current SMT Technologies and related information provided in accordance with the Technical Licence and Assistance Agreement.

The Royalty shall be payable by VSA(HK) within 45 days after the receipt of the relevant invoice, which shall be issued by Andes at the end of every month.

The amount and the payment terms for the temporary secondment of staff/qualified engineers from Andes to VSA(HK) and/or VSA China at the request of VSA(HK) shall be agreed among the parties separately on a case-by-case basis.

Certain allowances and expenses of personnel assigned by Andes to work for VSA(HK) and/or VSA China as VSA(HK)'s employee pursuant to the Technical Licence and Assistance Agreement shall be borne by VSA(HK) subject to the terms and conditions as provided therein and the service agreement(s) to be entered into between VSA(HK) and such personnel.

### **Term of the Technical Licence and Assistance Agreement**

The term of the Technical Licence and Assistance Agreement shall commence upon the Joint Venture Agreement becoming unconditional and effective in accordance with its terms, and shall remain effective so long as Andes holds not less than 5% of the issued Shares. As mentioned in the Company's announcement dated 9 December 2002, the Joint Venture Agreement will become effective and unconditional upon Completion. In the event that Andes shall cease to hold 5% or more of the issued Shares, either party shall have the right to terminate the Technical Licence and Assistance Agreement by giving not less than one month's prior notice to the other party.

## **5. MATERIAL SUPPLY AGREEMENT**

Date: 28 January 2003

Parties: STX as seller

VSA(HK) and VSA China as buyers

### **Supply of materials for the production of the Products**

The Material Supply Agreement constitutes the general conditions for the supply of the production materials of the Products by STX to each of VSA(HK) and VSA China, and the terms and conditions of the Material Supply Agreement shall apply to every contract constituted by the written acceptance by STX of any purchase order for such production materials given by VSA(HK) and/or VSA China in accordance with its terms.

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## LETTER FROM THE BOARD

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Under the Material Supply Agreement, each of VSA(HK) and/or VSA China shall grant to STX the right of first refusal to accept the purchase order of such production materials from each of VSA(HK) and/or VSA China at the lower of (i) the price as from time to time quoted by STX; or (ii) the price quoted by any third party (“**TP Indicative Price**”) for the supply of such production materials of the same quantity and conditions and of comparable quality. If such purchase order is not accepted by STX in writing within 14 days from the date of such purchase order, VSA(HK) or (as the case may be) VSA China may make an offer to any third party for the supply of the production materials, provided that if the price initially offered by VSA(HK) or (as the case may be) VSA China to STX under the purchase order is the TP Indicative Price, then the offer made to such third party shall not be at a price more favourable than that of the TP Indicative Price.

The Material Supply Agreement further provides, in the event that the customer for the production of the Products to which the production materials relate is introduced and procured by STX, then unless otherwise expressly agreed between STX and VSA(HK) or (as the case may be) VSA China, VSA(HK) or (as the case may be) VSA China shall, notwithstanding the foregoing, exclusively place the purchase order in relation to such production materials with STX, and STX shall be deemed to have accepted such purchase order upon receipt thereof.

### **Payment of purchase price of the production materials**

Under the Material Supply Agreement, the purchase price of the production materials shall be payable by VSA(HK) or (as the case may be) VSA China within 60 days after the end of the month of receipt of the relevant production materials in question by VSA(HK) or (as the case may be) VSA China.

### **Term of the Material Supply Agreement**

The Material Supply Agreement shall become effective upon the Joint Venture Agreement becoming unconditional and effective in accordance with its terms, and shall remain effective so long as STX holds not less than 5% of the issued Shares. In the event that STX shall cease to hold 5% or more of the issued Shares, any party shall have the right to terminate the Material Supply Agreement by giving not less than one month’s prior notice to the other parties.

## **6. REASONS FOR THE TRANSACTIONS**

The Group has been principally engaged in the business of, among other businesses, the assembly of electronic parts and components and also used SMT Technologies and automatic insertion technology for the production of printed circuit boards for audio products and remote controls.

Andes is one of the major developers of the SMT Technologies and has extensive experience in the manufacturing of the Products. STX is a worldwide distributor of electronic products and has extensive worldwide marketing and distribution networks.

The Directors expect that, with strong technological support from Andes, the overall technology capability of the Group can be thereby improved and the Group may use the SMT Technologies to expand its business to high-end electronic products assembly. The distribution capability of STX can also help the Group to capture the business opportunities in this high market potential products and enlarge its market shares worldwide.

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## LETTER FROM THE BOARD

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### 7. MAJOR AND CONNECTED TRANSACTION

Upon Completion, the entire issued share capital of VSA(HK) will be beneficially owned as to 71% by VSII, 19% by Andes and 10% by STX. Each of Andes and STX would become substantial shareholders of VSA(HK) and thus connected persons to the Company under the Listing Rules.

As the net asset value of VSA(HK) which the Shares to be purchased under the Call Option represent cannot be ascertained as at the date of the Company's announcement dated 28 January 2003 and will only be determined at the time of exercise of the Call Option with reference to the then latest audited consolidated accounts of VSA(HK), the grant of the Call Option was classified by the Stock Exchange as a major and connected transaction and would be subject to the disclosure and Independent Shareholders' approval requirement under Chapter 14 of the Listing Rules. The disposal of Shares pursuant to any exercise of the Call Option will be treated as a distinct and separate transaction of the Company and will be subject to the then applicable disclosure and/or shareholders' approval requirements under the Listing Rules.

The Company will make a further announcement, which will contain, among other matters, the exercise price of the Call Option upon the exercise of the Call Option by any of STX and Andes, and will comply with the relevant requirements in relation to notifiable transactions and/or connected transactions under Chapter 14 of the Listing Rules in relation to the exercise of the Call Option.

The future sales of production materials by STX to each of VSA(HK) and VSA China under the Material Supply Agreement, the provision of technical support by, the grant of licence to use SMT Technologies and other related technical information by, and the temporary secondment of staff and/or qualified engineers by, Andes to VSA(HK) and/or VSA China under the Technical Licence and Assistance Agreement and the sub-licensing of such technologies and/or technical information by VSA(HK) to VSA China, may or may not constitute notifiable transactions (other than connected transactions) for the Company under the Listing Rules. However, these ongoing transactions will constitute ongoing connected transactions for the Company under the Listing Rules and, depending on the amount of consideration involved in each of these transactions, may be subject to the disclosure and/or shareholders' approval requirements under Chapter 14 of the Listing Rules. The Company will comply with the relevant requirements for these notifiable transactions and/or connected transactions under the Listing Rules, or will apply for the appropriate waiver in respect thereof in relation to these notifiable and/or connected transactions as and when needed.

### 8. GENERAL

Under the Listing Rules, any connected person interested in the Call Option and its associates will be required to abstain from voting on the resolutions approving the grant of the Call Option at the relevant general meeting. So far as the Directors are aware after making reasonable enquiries, none of Andes, STX, any person interested in the Call Option and their respective associates is a Shareholder as at 28 January 2003 and would have been required to abstain from voting if a general meeting of the Shareholders had been convened to approve the Call Option. Accordingly, the Company had sought a confirmation from the Stock Exchange that the approval of the grant of the Call Option by the Independent Shareholders may be obtained by means of a written approval by an Independent Shareholder who holds more than 50% in nominal value of the issued share capital of the Company. VVS Co., Ltd., 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 Call Option.

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

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LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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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)*

10 March 2003

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

Dear Sir or Madam,

The Company announced on 9 December 2002 that the Group had entered into the conditional Joint Venture Agreement for the cooperation and joint investment in the PRC for the manufacture of, among other things, the Products in the PRC with Andes and STX and the granting of the Call Option. The Joint Venture Agreement is conditional upon, among other conditions, the entering into by the relevant parties of the Share Purchase and Subscription Agreement, the Technical Licence and Assistance Agreement and the Material Supply Agreement on or prior to 31 January 2003.

It was announced on 28 January 2003 that the Group had entered into the Share Purchase and Subscription Agreement, the Technical Licence and Assistance Agreement and the Material Supply Agreement, and that, upon the completion of the Share Purchase and Subscription Agreement, the entire share capital of VSA(HK) will be beneficially owned as to 71% by VSII, 19% by Andes and 10% by STX, following which Andes and STX would become substantial shareholders of VSA(HK) and thus connected persons to the Company under the Listing Rules. Under the Joint Venture Agreement, VSII has conditionally agreed to grant to Andes and STX the Call Option to increase their combined shareholdings in VSA(HK) from 29% to 49%.

We have been appointed as members of the Independent Board Committee to consider the terms of the Call Option. Our role as Independent Board Committee is to advise the Independent Shareholders as to whether the terms and conditions of the Call Option 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 Call Option are set out in the circular of the Company dated 10 March 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 Call Option. We have also considered the advice given by Watterson. We concur with the views of Watterson that the terms and conditions of the grant of Call Option by VSII 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 appendices to the Circular.

Yours faithfully,

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



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## LETTER FROM WATTERSON

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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 terms and conditions of the Call Option:

10 March 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,

**Technical Licence and Assistance Agreement, Material Supply Agreement in relation to the Joint Venture Agreement with Andes and STX and Call Option**

We refer to our appointment as independent financial adviser to the Independent Board Committee in relation to the major and connected transactions relating to the grant of Call Option under the Joint Venture Agreement as well as the Technical Licence and Assistance Agreement and the Material Supply Agreement. Our role as independent financial adviser is to give our opinion as to whether the terms of the Technical Licence and Assistance Agreement, the Material Supply Agreement and the grant of Call Option by VSII are fair and reasonable to Independent Shareholders. Details of the Call Option, the Joint Venture Agreement and the ancillary agreements to the Joint Venture Agreement, namely the Technical Licence and Assistance Agreement and the Material Supply Agreement, are set out in the letter from the Board contained in the circular dated 10 March 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 sales and purchases budgets of VSA(HK) for the period up to 31 July 2005. We have discussed the bases and assumptions made by you in relation to such budgets and are of the view that the budgets so prepared have been made after due and careful consideration.

We have assumed that representations by the Directors relating to the operations and financial position of the Group were accurate at the time they were made and continue to be so as at the date of the Document. We consider that we have sufficient information to reach an informed view and to provide a reasonable basis for our recommendation. The Directors have also confirmed to us that no material facts have been omitted from the information supplied and we have no reason to suspect that any material information has been withheld by the Company or is misleading. We have not, however, for the purpose of this exercise, conducted any form of detailed investigation into the businesses or affairs of the Group.

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

In arriving at our opinion on the Technical Licence and Assistance Agreement, the Material Supply Agreement and the grant of Call Option by VSII, we have taken into consideration the following factors and reasons:

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## LETTER FROM WATTERSON

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### **Background to the Joint Venture Agreement**

The Group is principally engaged in the manufacturing and sales of plastic moulded products, assembling of electronic products as well as mould design and fabrication services. In terms of sales contribution, assembling of electronic products accounted for approximately 58% of the Group's total sales for the year ended 31 July 2002 whereas the manufacture and sales of plastic moulded products as well as mould design and fabrication accounted for the remaining 42%. Currently, assembly works by the Group are engaged by third party manufacturers of home audio equipment, remote control units, computer printers and scanners.

The Group plans to expand its business to high-end electronic products assembly and the Directors are of the view that the first step to be taken in this direction is to be involved in the production of printed circuit boards for such products such as digital cameras and colour screen mobile phone sets for third-party manufacturers. Targeted customers for such products will include Japanese, US and European manufacturers of such electronic products.

The Group currently does not have the technology to manufacture multi-layered printed circuit boards for such high-end electronic products which are much more compact than those presently assembled by the Group. Consequently, there is a need to bring in strategic partners, both for the purpose of acquiring the manufacturing know-how for such production and for the sale of the finished printed circuit boards.

Based in Japan, Andes is principally engaged in the production of printed circuit board assembly and its related semi-finished and/or finished products and is presently one of the leading SMT Technologies providers in that country with about 20 years experience. STX is a subsidiary of the Sumitomo Corporation of Japan and is primarily a trading house that specialised in trading between the US and the Asia Pacific region, including Japan. Sumitomo Corporation develops, manufactures and distributes more than 20,000 products worldwide and had sales of US\$72 billion and after-tax profits of US\$340 million for the year ended 31 March 2002.

### **Terms of the Technical Licence and Assistance Agreement**

Under the Technical Licence and Assistance Agreement, Andes shall provide to VSA(HK) and VSA China a non-exclusive licence to use the SMT Technologies and the related knowhow and technical information for the manufacture of printed circuit boards. In addition, Andes shall provide VSA(HK) and VSA China all necessary technological support and assistance including the secondment of qualified engineers and support staff to VSA(HK) and VSA China. In consideration for the licensing of the SMT Technologies and the provision of related support services, Andes shall charge VSA(HK) a royalty fee on the Products sold based on 2% of the aggregate line assembly cost and the cost of the production of the printed circuit boards sold by VSA China. Under this agreement, the royalties will be payable from 1 August 2003 to 31 July 2008.

While VSA(HK) has the alternative to hire a new technical team engaged in SMT Technologies for this purpose, we are of the view that it would be more cost effective to engage Andes for this role. It has been estimated by the Group that it would be required to spend approximately HK\$10 million, had it decided to acquire or develop similar SMT Technologies for the manufacture of such printed circuit boards in house. In addition, it is estimated that it would take not less than 1 to 3 years before production can start, assuming that such technologies are successfully developed by the Group. More troubling with this alternative is the risk that the Group may not be successful in such development; in which case, the above development costs may have to be written off in the profit and loss accounts, thereby affecting the Group's future results. With Andes as a joint venture partner and a technology provider, this risk is effectively removed given that Andes will be responsible to provide VSA(HK) and VSA China the latest technologies available for such production. Secondly, with Andes, VSA(HK) will be in a position to focus its human and

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## LETTER FROM WATTERSON

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financial resources on production immediately and not on research and development relating to related SMT Technologies, thereby shortening the time to market and sell the Products. The introduction of Andes as a joint venture partner in VSA(HK) is a risk aversion arrangement taken by the management of the Company to balance the project development risk associated with such a new manufacturing joint venture in which the Group currently does not have the necessary technological expertise. In addition, under the Joint Venture Agreement, royalty fee is only payable upon shipment of Products sold. Based on budgets prepared for VSA(HK), royalty payments to Andes for the period to 31 July 2005 amounted to only approximately HK\$3.2 million. Compared this amount with the estimated costs of HK\$10 million had the Group been required to develop its own technologies for the Products, we are of the view that retaining Andes as the technology partner of VSA(HK) is of sound commercial sense and that the terms of the royalty payments under the Technical Licence and Assistance Agreement are fair and reasonable and are beneficial to the Group as a whole.

### **Terms of the Material Supply Agreement**

Under the Material Supply Agreement, each of VSA(HK) and VSA China will grant to STX the right of first refusal to accept the purchase order of production materials used for the manufacture of printed circuit boards provided that the price quoted by STX is the same or lower than that quoted by any third party supplier. We are of the opinion that the Material Supply Agreement serves to broaden the Group's supplier base and is therefore beneficial to the Group. The Material Supply Agreement further provides, in the event that the customer for the production of the printed circuit boards to which the production materials relate is introduced and procured by STX, VSA(HK) or VSA China will have to place such production materials purchase orders exclusively with STX and STX will have to accept such orders. Based on sales budgets prepared by VSA(HK) for the coming two years to 31 July 2005, sales to STX are expected to amount to approximately between 30% and 40% of VSA(HK) with the remaining sales to third parties. Consequently, STX is expected to be a significant customer to VSA(HK) in the next few years. On that basis and considering the extensive sales network of the Sumitomo Corporation into which VSA(HK) will be able to tap, we are of the view the involvement of STX in this joint venture is beneficial to the Group and that the terms of the Material Supply Agreement are fair and reasonable.

### **The Call Option**

One of the terms of the Joint Venture Agreement is that VSII will conditionally grant to Andes and STX an option to purchase from it additional shares which, together with all the shares already owned by them, represent up to 49% of the entire issued share capital of VSA(HK) at an amount equivalent to the higher of (i) HK\$1 or (ii) the net asset value of VSA(HK) at the time of the exercise of the Call Option as shown in its latest audited consolidated accounts. As the net asset value of VSA(HK) will only be determined at the time of exercise of the Call Option with reference to the then latest audited consolidated accounts of VSA(HK), the grant of the Call Option has been classified by the Stock Exchange as a major and connected transaction and would be subject to the disclosure and Independent Shareholders' approval requirement under Chapter 14 of the Listing Rules.

We noted the following:

- As mentioned earlier, we believe it is beneficial to the Group to have Andes and STX as the joint venture partners in VSA(HK), both from the standpoints of securing the necessary technology and sales of the Products in the future.
- The granting of the Call Option by VSII is conditional upon the entering into of the Technical Licence and Assistance Agreement and the Material Supply Agreement and as such is part and parcel of the Joint Venture Agreement with Andes and STX. We are of the view that it is in the interest of the Group to have Andes and STX as strategic joint

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## LETTER FROM WATTERSON

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venture partners. We are also of the view that the terms of the Technical Licence and Assistance Agreement and the Material Supply Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

- Upon the exercise of the Call Option by the joint venture partners in full, the Group will continue to have 51% controlling interest in VSA(HK).
- As the consideration for the exercise of the Call Option will be based on the higher of HK\$1 per Share or the latest net asset value of VSA(HK) at the time of such exercise, the Group will not suffer any book loss to its investment in VSA(HK) upon the exercise of the Call Option.
- There is no restriction in the Joint Venture Agreement that prohibits the Group from setting up another manufacturing joint venture engaged in similar business in the future.
- It is our understanding that the Company will make a further announcement of the exercise price of the Call Option at the time of such exercise by any of STX and Andes, and will be subject to the relevant requirements in relation to notifiable transactions and/or connected transactions under the Listing Rules as if it were a separate transaction. On that basis, we are of the opinion that the interests of the Independent Shareholders have been duly protected.

Based on the above, we are of the view that the grant of Call Option by VSII and the terms thereof are fair and reasonable so far as the Independent Shareholders are concerned.

### **Recommendation**

Having considered the above principal factors and reasons, we are of the view that the terms and conditions for the grant of Call Option by VSII 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. INDEBTEDNESS STATEMENT**

At the close of the business on 31 December 2002, being the latest practicable date for the purpose of ascertaining certain information relating to this indebtedness statement prior to the printing of this circular, the Group had outstanding borrowings of HK\$436,577,000, comprising unsecured bank loans of approximately HK\$190,929,000, secured bank loans of approximately HK\$185,686,000, finance lease obligations of approximately HK\$12,510,000 and an amount due to the Group's ultimate holding company of approximately HK\$47,452,000.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-Group liabilities, the Group did not have, at the close of business on 31 December 2002, any loan capital issued and outstanding or agreed to be issued, outstanding bank overdrafts and liabilities under acceptance (other than normal trade bills) or other similar indebtedness, debentures, mortgages, charges or loans or acceptance creditors, finance lease or hire purchase commitments or guarantees or other material contingent liabilities.

The Directors are not aware of any material adverse changes in the Group's indebtedness and contingent liabilities since 31 December 2002.

**2. WORKING CAPITAL**

The Directors are of the opinion that, in the absence of any unforeseen circumstances, the Group will have sufficient working capital for its present requirements.

**3. MATERIAL CHANGES**

Save as disclosed above, the Directors are not aware of any material changes in the financial or trading position or prospects of the Group since 31 July 2002, the date to which the latest published audited consolidated financial statements of the Group were made up.

## 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

As at the Latest Practicable Date, the interests of the Directors in the issued share capital of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the “SDI Ordinance”) (Chapter 396 of the Laws of Hong Kong)) which had been notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests in which they were deemed or taken to have under section 31 of, or Part I of the Schedule to, the SDI Ordinance) or which were required pursuant to section 29 of the SDI Ordinance, to be entered in the register 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:

### (a) Shares in the Company and its associated corporations

Name of company	Name of Directors (Note 1)	Personal interest	Number of share		Total interest
			Family interest	Corporate interest	
The Company (ordinary shares of HK\$0.05 each)	Beh Kim Ling	17,437,500	–	–	17,437,500
	Gan Chu Cheng	17,437,500	–	–	17,437,500
	Gan Sem Yam	17,437,500	–	–	17,437,500
	Gan Tiong Sia	17,437,500	–	–	17,437,500
VVS Co., Ltd. (ordinary shares of HK\$1 each)	Beh Kim Ling	3,182	–	–	3,182
	Gan Chu Cheng	3,182	–	–	3,182
	Gan Sem Yam	3,182	–	–	3,182
	Gan Tiong Sia	3,182	–	–	3,182
V.S. Industry Berhad (ordinary shares of RM1 each)	Beh Kim Ling	14,639,629	–	–	14,639,629
	Gan Chu Cheng	14,961,843	–	–	14,961,843
	Gan Sem Yam	6,841,825 (Note 2)	229,766 (Note 4)	–	7,071,591
	Gan Tiong Sia	2,576,355 (Note 3)	10,000 (Note 5)	–	2,586,355
V.S. Corporation (Hong Kong) Co. Limited (non-voting deferred shares of HK\$1 each)	Beh Kim Ling	3,750,000	–	–	3,750,000
	Gan Chu Cheng	3,750,000	–	–	3,750,000
	Gan Sem Yam	3,750,000	–	–	3,750,000
	Gan Tiong Sia	3,750,000	–	–	3,750,000

Name of company	Name of Directors (Note 1)	Personal interest	Number of share		Total interest
			Family interest	Corporate interest	
VS Investment (ordinary shares of HK\$1 each)	Beh Kim Ling	5	—	—	5
	Gan Chu Cheng	5	—	—	5
	Gan Sem Yam	5	—	—	5
V.S. Ashin Technology Sdn. Bhd. (ordinary shares of RM1 each) (Note 6)	Gan Chu Cheng	672,000	—	—	672,000
	Gan Sem Yam	746,667	—	—	746,667
V.S. Technology Sdn. Bhd. (ordinary shares of RM1 each) (Note 7)	Beh Kim Ling	50,000	—	—	50,000
	Gan Chu Cheng	50,000	—	—	50,000
	Gan Sem Yam	50,000	—	—	50,000
	Gan Tiong Sia	50,000	—	—	50,000

## 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. 1,000,000 shares and 750,000 shares of RM1 each in the share capital of V.S. Industry Berhad are held in bare trust by AMSEC Nominees (Tempatan) Sdn. Bhd. and Hong Leong Finance Berhad, respectively, for the benefit of Madam Gan Chu Cheng. Under the SDI Ordinance, Madam Gan Chu Cheng is deemed to be interested in all these shares.
3. 400,000 shares of RM1 each in the share capital of V.S. Industry Berhad are held in bare trust by AMSEC Nominees (Tempatan) Sdn. Bhd. for the benefit of Mr. Gan Sem Yam. Under SDI Ordinance, Mr. Gan Sem Yam is deemed to be interested in all these shares.
4. These shares are held by Madam Ling Sok Mooi, the spouse of Mr. Gan Sem Yam. Under the SDI Ordinance, Mr. Gan Sem Yam is deemed to be interested in all these shares held by Madam Ling Sok Mooi.
5. These shares are held by Madam Loi Hui Hong, the spouse of Mr. Gan Tiong Sia. Under the SDI Ordinance, Mr. Gan Tiong Sia is deemed to be interested in all these shares held by Madam Loi Hui Hong.
6. 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.
7. 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.

**(b) Rights to acquire shares in the Company or its associated corporations**

- (i) 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:

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

- (ii) The following options were granted under the Option Deed to the following Directors, which were, as at the Latest Practicable Date, outstanding:

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

Note: 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.

Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors had any interest in the issued share capital of the Company or any associated corporations (within the meaning of the SDI Ordinance) which were required to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including the interests in which they were deemed or taken to have under section 31 of, or Part I of the Schedule to, the SDI Ordinance) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules or which are required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein.

**(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. SUBSTANTIAL SHAREHOLDERS**

Save as disclosed below, no person (other than the Directors or the chief executive of the Company) has notified the Company that he/she/it has a direct/indirect interests amounting to 10% of the issued share capital of the Company and its subsidiaries as at the Latest Practicable Date pursuant to section 16(1) of the SDI Ordinance:

<b>Name</b>	<b>Number of shares of the Company</b>	<b>Percentage of shares of the Company</b>
V.S. Industry Berhad ( <i>Note</i> )	426,250,000	51.98
VVS Co., Ltd. ( <i>Note</i> )	426,250,000	51.98

Note: VVS Co., Ltd. is the registered owner of 426,250,000 shares in the capital of the Company. VVS Co., Ltd. is an investment holding company incorporated in the British Virgin Islands and is 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. V.S. Industry Berhad is deemed to be interested in the 426,250,000 shares in the capital of the Company held by VVS Co., Ltd. under the SDI Ordinance.

**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. SUMMARY OF MATERIAL CONTRACTS**

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the members of the Group within the period commencing two years immediately preceding the date of this circular and ending the Latest Practicable Date and are, or may be, material:

- (a) the Share Purchase and Subscription Agreement;
- (b) the Joint Venture Agreement;
- (c) the Supplemental Joint Venture Agreement;

- (d) a share purchase agreement dated 20 January 2002 and entered into between (i) V.S. Corporation (Holdings) Limited, V.S. Industry Berhad, Messrs. Beh Kim Ling, Gan Sem Yam, Gan Tiong Sia and Madam Gan Chu Cheng as vendors and the Company as purchaser for the acquisition of the entire issued share capital of VSII in consideration of and in exchange for the Company (i) allotted and issued, credited as fully paid, an aggregate of 73,000,000 shares of HK\$0.05 each in the capital of the Company, as to 50,187,500 shares to VVS Co., Ltd., 2,053,125 to each for Messrs. Beh Kim Ling, Gan Sem Yam, Gan Tiong Sia and Madam Gan Chu Cheng and 14,600,000 to V.S. Corporation (Holdings) Limited; and (ii) credited as fully paid at par the 2,000,000 nil paid shares of HK\$0.05 each in the capital of the Company then held by V.S. Corporation (Holdings) Limited, V.S. Industry Berhad, Messrs. Beh Kim Ling, Gan Sem Yam, Gan Tiong Sia and Madam Gan Chu Cheng;
- (e) a deed of indemnity dated 25 January 2002 given by V.S. Industry Berhad, Messrs. Beh Kim Ling, Gan Sem Yam, Gan Tiong Sia and Madam Gan Chu Cheng in favour of the Group containing certain indemnities regarding estate duty and taxation;
- (f) a conditional placing and underwriting agreement dated 25 January 2002 and entered into between the Company, V.S. Industry Berhad, VVS Co, Ltd., V.S. Corporation (Holdings) Limited, Messrs. Beh Kim Ling, Gan Sem Yam, Gan Tiong Sia, Zhang Pei Yu and Madam Gan Chu Cheng, DBS Asia Capital Limited, Sinpac Securities (Hong Kong) Co., Limited, Malayan Banking Berhad, First Shanghai Securities Limited and Polaris Securities (Hong Kong) Limited (DBS Asia Capital Limited, Sinpac Securities (Hong Kong) Co., Limited, Malayan Banking Berhad, First Shanghai Securities Limited and Polaris Securities (Hong Kong) Limited are collectively referred to as the “**Underwriters**”) for the underwriting and placing of the Company’s shares by the Underwriters in connection with the initial public offering of the Company, in consideration of the payment by the Company and V.S. Corporation (Holdings) Limited of (i) an underwriting commission of 2.5% of the aggregate offer price payable for the shares offered under such initial public offering to the Underwriters; and (ii) a financial advisory and documentation fee to DBS Asia Capital Limited;
- (g) a territorial delineation agreement dated 20 January 2002 and entered into between V.S. Industry Berhad and the Company for the delineation of the businesses of the Group and that of V.S. Industry Berhad (other than the Group) and the monitoring of their respective activities with their customers, in consideration of each party giving certain non-compete undertakings contained therein to the other party;
- (h) the Option Deed; and
- (i) a deed of indemnity dated 20 January 2002 given by Messrs. Beh Kim Ling, Gan Sem Yam, Zhang Pei Yu and Madam Gan Chu Cheng in favour of the Group containing certain indemnities in respect of, among other things, the liabilities of the Group as a result of or arising from the failure of V.S. Technology Industry Park (Zhuhai) Co., Ltd. in complying with certain domestic and export sales ratio requirements.

## 7. CONSENT AND EXPERT

- (a) Watterson is an investment adviser and dealer registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong).
- (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.

## **8. GENERAL**

- (a) 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.
- (b) 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.
- (c) 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.
- (d) The English text of this circular shall prevail over the Chinese text in case of inconsistency.

## **9. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the offices of Chiu & Partners, 41st Floor, Jardine House, 1 Connaught Place, Central, Hong Kong during normal business hours up to and including 25 March 2003:

- (a) the memorandum and articles of association of the Company;
- (b) the letter of advice from Watterson to the Independent Board Committee, the text of which is set out on pages 15 to 18 of this circular;
- (c) the written consent from Watterson referred to in paragraph 7 of this appendix;
- (d) the annual report of the Group for the year ended 31 July 2002;
- (e) the accountants' report of the Group from KPMG dated 28 January 2002 containing the consolidated audited financial statements of the Group for the three years ended 31 July 2001, and the related statement of adjustments;
- (f) the Technical Licence and Assistance Agreement and the Material Supply Agreement;
- (g) the material contracts referred to in paragraph 6 of this appendix;
- (h) the service contracts referred to in paragraph 3 of this appendix; and
- (i) a circular dated 13 December 2002 in relation to certain ongoing connected transactions.