

(Amounts expressed in Hong Kong dollars unless otherwise stated)

The Directors are pleased to present their annual report together with the audited financial statements of Van Shung Chong Holdings Limited (“VSC” or the “Company”) and its subsidiaries (together the “VSC Group”) for the year ended 31st March, 2001.

PRINCIPAL ACTIVITIES

VSC is an investment holding company. Its subsidiaries are principally engaged in (i) trading and stockholding of steel products, processing of rolled steel flat products, trading of sanitary ware and kitchen cabinets, and the provision of installation work on kitchen cabinets, and trading of engineering plastic resins and injection moulding machines in Hong Kong and Mainland China, (ii) property rental, and (iii) the finance business.

Details of the VSC Group’s turnover and gross profit by product range and geographical location are set out in Note 5 to the accompanying financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the financial year ended 31st March, 2001, the five largest customers of the VSC Group accounted for less than 30% of the VSC Group’s total turnover, while the five largest suppliers of the VSC Group accounted for approximately 35% of the VSC Group’s total purchases. In addition, the largest supplier of the VSC Group accounted for approximately 9% of the VSC Group’s total purchases.

None of the directors, their associates, or any shareholders (which to the knowledge of VSC’s Directors owned more than 5% of VSC’s share capital) had a beneficial interest in the five largest suppliers of the VSC Group.

RESULTS AND APPROPRIATIONS

Details of the VSC Group’s results for the year ended 31st March, 2001 are set out in the consolidated income statement on page 55 of this annual report.

An interim cash dividend of \$0.03 per share was declared and paid during the year and the Directors recommend the payment of a final cash dividend of \$0.23 per share. Total cash dividend paid and payable for the year ended 31st March, 2001 will amount to \$0.26 per share or approximately \$92,375,000 (2000 - \$29,930,000). A dividend in specie in the form of 285,200,000 shares in iSteelAsia.com Limited on the basis of 1,562 shares of iSteelAsia.com Limited for VSC’s shareholders holding 2,000 shares in VSC was also distributed to the shareholders, amounting to \$308,016,000.

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(Amounts expressed in Hong Kong dollars unless otherwise stated)

SHARE CAPITAL, WARRANTS AND EMPLOYEE SHARE OPTIONS

Details of share capital, warrants and employee share options of VSC are set out in Notes 28, 29 and 30, respectively, to the accompanying financial statements.

RESERVES AND RETAINED PROFIT

Movements in reserves of the VSC Group and VSC during the year are set out in Note 31 to the accompanying financial statements. Movements in retained profit of the VSC Group during the year are set out in the consolidated income statement on page 55 of this annual report.

As at 31st March, 2001, approximately \$53,986,000 (2000 - \$53,986,000) of VSC's reserves and approximately \$7,496,000 (2000 - \$27,490,000) of VSC's retained profit were available for distribution to its shareholders.

PURCHASE, SALE OR REDEMPTION OF SHARES AND WARRANTS

During the year, VSC repurchased certain of its own shares through The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), details of which are set out in Note 28 to the accompanying financial statements.

The repurchases set out in Note 28 were made for the enhancement of the net assets and earnings per share of VSC.

Details of movements during the year in the share capital of VSC are set out in Note 28 to the accompanying financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under VSC's Bye-laws and the laws of Bermuda.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements of property, plant and equipment and investment properties during the year are set out in Notes 15 and 16, respectively, to the accompanying financial statements.

SUBSIDIARIES AND ASSOCIATES

Particulars of VSC's subsidiaries and associates are set out in Notes 17 and 18, respectively, to the accompanying financial statements.

BANK LOANS

Particulars of bank loans as at 31st March, 2001 are set out in Note 25 to the accompanying financial statements.

PENSION SCHEMES

Details of the pension schemes are set out in Note 34 to the accompanying financial statements.

CHARITABLE DONATIONS

During the year, the VSC Group made charitable donations of approximately \$20,000 (2000 - \$5,000).

CONNECTED TRANSACTIONS

During the financial year, a sub-tenancy agreement (the "Sub-Tenancy Agreement") was entered into between CFY Enterprises Limited ("CFY"), a wholly-owned subsidiary of the Company, and EC.com Limited ("EC"), a company indirectly controlled by Mr. Moses Kwok Tai Tsang, a non-executive director of the Company (the "Transaction"), in which CFY agreed to sub-let to EC an office premise being a portion of 52nd Floor, The Center, 99 Queen's Road Central, Hong Kong.

Pursuant to the waiver dated 14th July, 2000 granted by the Stock Exchange (the "Waiver"), the Transaction has been reviewed by the independent non-executive directors of the Company. The independent non-executive directors of the Company have confirmed that (i) the Transaction has been conducted on normal commercial terms; (ii) the terms are fair and reasonable and in the best interests of the Company; (iii) the rental payable by EC under the Sub-Tenancy Agreement was agreed after arm's length negotiation in light of the then current market conditions with reference to the advice obtained from an independent valuer; and (iv) the aggregate amount of the Transaction for the financial year ended 31st March, 2001 of the Company did not exceed the higher of \$10 million or 3 per cent. of the book value of the net tangible assets of the VSC Group in this financial year.

The auditors of the Company have also confirmed that (i) the Transaction had received the approval of the Company's board of directors including independent non-executive directors; (ii) the Transaction was entered into in accordance with terms of the Sub-Tenancy Agreement governing the Transaction; and (iii) the aggregate amount of the Transaction for the financial year ended 31st March, 2001 of the Company did not exceed the higher of \$10 million or 3 per cent. of the book value of the net tangible assets of the VSC Group in this financial year.

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(Amounts expressed in Hong Kong dollars unless otherwise stated)

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors who held office during the year and up to the date of this report were:

Executive directors

Mr. Yao Shu Sheng, *Honorary Chairman*

Mr. Yao Cho Fai, *Andrew, Chairman*

Ms. Yao Che Li, *Miriam*

Mr. Dong Yuen Jih

Mr. Ma Kwok Ming, *Dominic*

Mr. Ho Sai Hou, *Johnson*

Non-executive directors

Dr. Chow Yei Ching

Dr. Shao You Bao

Mr. Ting Woo Shou, *Kenneth*

Mr. Tsang Kwok Tai, *Moses*

In accordance with VSC's Bye-laws, Dr. Chow Yei Ching and Mr. Ting Woo Shou, Kenneth will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

None of the directors has a service contract with the VSC Group which is not determinable by the VSC Group within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTERESTS IN SHARES, WARRANTS AND EMPLOYEE SHARE OPTIONS

As at 31st March, 2001, the interests of directors and their respective associates in the shares of \$0.10 each in the capital of VSC ("Shares") as recorded in the register maintained by VSC under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to VSC and the Stock Exchange, were as follows:

Name	Number of Shares	Number of Warrants (Note a)	Number of employee share options
Mr. Yao Shu Sheng (Note b)	—	—	6,000,000
Mr. Yao Cho Fai, Andrew (Notes c and d)	204,624,000	29,124,800	6,900,000
Ms. Yao Che Li, Miriam (Notes c and f)	204,624,000	29,124,800	2,000,000
Mr. Dong Yuen Jih (Note e)	4,874,400	—	—
Mr. Ho Sai Hou, Johnson (Note g)	680,400	160,880	900,000
Dr. Shao You Bao (Notes h and i)	1,200,000	—	—
Mr. Ting Woo Shou, Kenneth (Note j)	2,402,000	141,600	—

Notes:

- The warrants ("Warrants") of VSC's conferred rights to subscribe in cash for Shares, on the basis of a subscription price of \$2.00 per Share (subject to adjustment) during the period from 16th February, 2000 to 16th February, 2002 (both dates inclusive).
- Mr. Yao Shu Sheng was interested in options to subscribe for an aggregate of 6,000,000 Shares in VSC at \$0.9360 per Share exercisable during the period from 1st April, 1996 to 31st March, 2003. These interests were personal interests in VSC as described in Practice Note 5 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").
- As at 31st March, 2001, Huge Top Industrial Ltd. ("Huge Top") held 204,624,000 Shares and 29,124,800 Warrants of VSC. The board of directors of Huge Top comprises Mr. Yao Cho Fai, Andrew and Ms. Yao Che Li, Miriam, who are also VSC's Directors. Mr. Yao Cho Fai, Andrew directly and indirectly owned more than one-third of the issued shares of Huge Top. The interests of the aforesaid Directors in the issued Shares and Warrants of VSC were corporate interests in VSC as described in Practice Note 5 of the Listing Rules.
- Mr. Yao Cho Fai, Andrew was also interested in options to subscribe for an aggregate of 2,000,000 Shares, 2,000,000 Shares and 2,900,000 Shares in VSC at \$1.1344, \$1.2528 and \$1.3840, respectively, per Share exercisable during the periods from 15th January, 1997 to 15th January, 2004 (in the case of the options which are exercisable at \$1.1344 and \$1.2528 per Share) and from 1st May, 1998 to 22nd January, 2004 (in the case of the options which are exercisable at \$1.3840 per Share). These interests were personal interests in VSC as described in Practice Note 5 of the Listing Rules.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

DIRECTORS' INTERESTS IN SHARES, WARRANTS AND EMPLOYEE SHARE OPTIONS *(Cont'd)*

- e. Mr. Dong Yuen Jih held 4,874,400 Shares of VSC. These interests were personal interests in VSC as described in Practice Note 5 of the Listing Rules.
- f. Ms. Yao Che Li, Miriam was also interested in options to subscribe for an aggregate of 2,000,000 Shares in VSC at \$1.1344 per Share exercisable during the period from 15th January, 1997 to 15th January, 2004. These interests were personal interests in VSC as described in Practice Note 5 of the Listing Rules.
- g. Mr. Ho Sai Hou, Johnson held 680,400 Shares and 160,880 Warrants of VSC. He was also interested in options to subscribe for an aggregate of 500,000 Shares and 400,000 Shares in VSC at \$1.1344 and \$1.3840, respectively, per Share exercisable during the periods from 15th January, 1997 to 15th January, 2004 (in the case of the options which are exercisable at \$1.1344 per Share) and from 1st May, 1998 to 22nd January, 2004 (in the case of the options which are exercisable at \$1.3840 per Share). These interests were personal interests in VSC as described in Practice Note 5 of the Listing Rules.
- h. Dr. Shao You Bao held 600,000 Shares of VSC. These interests were personal interests in VSC as described in Practice Note 5 of the Listing Rules.
- i. Ms. Hsu Chi Kung, wife of Dr. Shao You Bao, held 600,000 Shares of VSC. The interests of Dr. Shao You Bao in these Shares were family interests in VSC as described in Practice Note 5 of the Listing Rules.
- j. Mr. Ting Woo Shou, Kenneth held 2,402,000 Shares and 141,600 Warrants of VSC. These interests were personal interests in VSC as described in Practice Note 5 of the Listing Rules.

Other than disclosed herein, as at 31st March, 2001, neither the Directors nor their associates had any interests in any Shares of VSC (within the meaning of the SDI Ordinance) which were required to be notified to VSC pursuant to Section 28 of the SDI Ordinance or which were required to be recorded under Section 29 of the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

VSC has an employee share option scheme, under which it may grant options to employees (including executive directors) of the VSC Group to subscribe for Shares in VSC. Details of the scheme are set out in Note 30 to the accompanying financial statements. The employee share options granted to and held by VSC's Directors during the year were as follows:

Name	Subscription price per share	Number of employee share options		
		Beginning of year	Exercised during the year	End of year
Mr. Yao Shu Sheng	\$0.9360	6,000,000	—	6,000,000
Mr. Yao Cho Fai, Andrew	\$1.1344	2,000,000	—	2,000,000
	\$1.2528	2,000,000	—	2,000,000
	\$1.3840	2,900,000	—	2,900,000
Ms. Yao Che Li, Miriam	\$1.1344	2,000,000	—	2,000,000
Mr. Ho Sai Hou, Johnson	\$1.1344	500,000	—	500,000
	\$1.3840	400,000	—	400,000
		<u>15,800,000</u>	<u>—</u>	<u>15,800,000</u>

The options with subscription price of \$0.9360 are exercisable at any time during the period from 1st April, 1996 to 31st March, 2003, those with subscription price of \$1.1344 and \$1.2528 are exercisable at any time during the period from 15th January, 1997 to 15th January, 2004, and those with subscription price of \$1.3840 are exercisable at any time during the period from 1st May, 1998 to 22nd January, 2004.

Save as disclosed above, at no time during the year was VSC or any of its subsidiaries, a party to any arrangements to enable VSC's Directors or members of its management to acquire benefits by means of the acquisition of Shares in, or debt securities (including debentures) of, VSC or any other body corporate.

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(Amounts expressed in Hong Kong dollars unless otherwise stated)

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in Note 3 to the accompanying financial statements, no contracts of significance in relation to the VSC Group's business to which VSC or any of its subsidiaries was a party and in which any of VSC's Directors or members of its management had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDER

As at 31st March, 2001, according to the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance, VSC had been notified of the following interest (other than those interests of Directors disclosed above), being 10% or more of the issued share capital of VSC:

Name	Number of issued Shares	Shareholding percentage	Number of Warrants
Huge Top Industrial Ltd.	204,624,000	57.59%	29,124,800

Save as disclosed above, VSC had no notice of any interests required to be recorded under Section 16(1) of the SDI Ordinance as at 31st March, 2001.

CODE OF BEST PRACTICE

In the opinion of VSC's Directors, VSC had complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the accounting year covered by the annual report, except that the non-executive directors of VSC are not appointed for specific terms. However, the non-executive directors are subject to retirement by rotation and re-election at annual general meeting in accordance with VSC's Bye-laws.

AUDIT COMMITTEE

In compliance with the requirements set by the Stock Exchange, the VSC Group set up its Audit Committee in December 1998. The Committee consists of three non-executive directors, Mr. Ting Woo Shou, Kenneth as Chairman and Dr. Chow Yei Ching and Dr. Shao You Bao as members. Scope of the work of the Audit Committee is defined and approved by the Board in relation to various internal control and audit issues with a view to further improving our corporate governance.

AUDITORS

The accompanying financial statements were audited by Messrs. Arthur Andersen & Co. A resolution for their re-appointment as auditors for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board of Directors,

Yao Cho Fai, Andrew

Chairman

Hong Kong, 10th July, 2001