

Report of the Directors

The Directors are pleased to present their annual report together with the audited accounts of Van Shung Chong Holdings Limited (“VSC”) and its subsidiaries (together the “VSC Group”) for the year ended 31st March 2004.

PRINCIPAL ACTIVITIES

VSC is an investment holding company and its subsidiaries are principally engaged in (i) China Advanced Materials Processing including manufacturing of industrial products such as rolled flat steel products and enclosure systems and trading of industrial products such as engineering plastic resins and injection moulding machines, and (ii) Construction Materials Group including trading and stockholding of construction materials such as steel products, sanitary ware and kitchen cabinets and the installation work of kitchen cabinets.

Details of the VSC Group’s turnover and segment results by business segment and geographical segment are set out in Note 33 to the accompanying accounts.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st March 2004, 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 30% 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 2004 are set out in the consolidated profit and loss account on page 81 of this annual report.

An interim cash dividend of HK3.1 cents per share was declared and paid during the year and the Directors recommend the payment of a final cash dividend of HK2.8 cents per share. Total cash dividend paid and payable for the year ended 31st March 2004 will amount to HK5.9 cents or approximately HK\$21,180,000 (2003: HK\$18,111,000).

SHARE CAPITAL, WARRANTS AND SHARE OPTIONS

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

RESERVES AND RETAINED PROFIT

Movements in reserves and retained profit of the VSC Group and VSC during the year are set out in Note 31 to the accompanying accounts.

As at 31st March 2004, approximately HK\$53,986,000 (2003: HK\$53,986,000) of VSC’s reserves and approximately HK\$21,530,000 (2003: HK\$7,786,000) 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 accounts.

The repurchases set out in Note 28 were made for the enhancement of the net asset value per share 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 accounts.

PRE-EMPTIVE RIGHTS

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

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements of fixed assets and investment properties during the year are set out in Notes 13 and 14, respectively, to the accompanying accounts.

SUBSIDIARIES AND ASSOCIATES

Particulars of VSC's subsidiaries and associates are set out in Notes 15 and 16, respectively, to the accompanying accounts.

BANK LOANS

Particulars of bank loans as at 31st March 2004 are set out in Notes 24 and 26 to the accompanying accounts.

PENSION SCHEMES

Details of the pension schemes are set out in Note 36 to the accompanying accounts.

CHARITABLE DONATIONS

During the year, the VSC Group made charitable donations of approximately HK\$6,000 (2003: HK\$520,000).

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 Cho Fai, Andrew, *Chairman and CEO*

Ms. Yao Che Li, Miriam, *Deputy Chairman*

Mr. Ho Sai Hou, Johnson

Mr. Dong Sai Ming, Fernando

Non-executive director

Dr. Shao You Bao

Report of the Directors**DIRECTORS AND DIRECTORS' SERVICE CONTRACTS (Cont'd)****Independent Non-executive directors**

Dr. Chow Yei Ching

Mr. Ting Woo Shou, Kenneth

Mr. Harold Richard Kahler

In accordance with VSC's Bye-law 87(1), Ms. Yao Che Li, Miriam and Dr. Chow Yei Ching will retire. Ms. Yao Che Li, Miriam will not offer herself for re-election, whereas Dr. Chow Yei Ching being eligible, offer himself 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 AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31st March 2004, the interests or short positions of the directors of VSC ("Directors") and chief executives of VSC in the shares of HK\$0.10 each in the capital of VSC ("Shares") and underlying shares of VSC or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to VSC and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, 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, to be notified to VSC and the Stock Exchange, were as follows:

(i) Long positions in Shares, Warrants and options

Name	Type of interest	Attributable interest to the Director	Number of Shares and approximate % of shareholding	Number of Warrants (Note a)	Number of options (Note d)	Aggregate interest
Mr. Yao Cho Fai, Andrew	– Corporate interest held by Huge Top (Note b)	deemed interest (indirectly)	173,424,000 (47.15%)	–	–	173,424,000
	– Personal interest	100% (directly)	6,900,000 (1.88%)	–	–	6,900,000
			<hr/>			
			180,324,000 (49.03%)	–	–	180,324,000
Ms. Yao Che Li, Miriam	– Corporate interest held by Huge Top (Note b)	deemed interest (indirectly)	173,424,000 (47.15%)	–	–	173,424,000
	– Personal interest	100% (directly)	2,000,000 (0.55%)	–	1,000,000	3,000,000
			<hr/>			
			175,424,000 (47.70%)	–	1,000,000	176,424,000

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES*(Cont'd)***(i) Long positions in Shares, Warrants and options** *(Cont'd)*

Name	Type of interest	Attributable interest to the Director	Number of Shares and approximate % of shareholding		Number of Warrants <i>(Note a)</i>	Number of options <i>(Note d)</i>	Aggregate interest
Mr. Dong Sai Ming, Fernando	– Personal interest	100% (directly)	342,000	(0.09%)	14,200	300,000	656,200
Mr. Ho Sai Hou, Johnson	– Personal interest	100% (directly)	949,894	(0.26%)	46,640	1,000,000	1,996,534
Dr. Shao You Bao	– Family interest <i>(Note c)</i>	deemed interest (indirectly)	–	(–)	60,000	–	60,000
Mr. Ting Woo Shou, Kenneth	– Personal interest	100% (directly)	2,402,000	(0.65%)	240,200	–	2,642,200
Mr. Harold Richard Kahler	– Personal interest	100% (directly)	66,000	(0.02%)	–	–	66,000

Notes:

- a. The warrants (“Warrants”) of VSC conferred rights to subscribe in cash for Shares, on the basis of a subscription price of HK\$1.18 per Share (subject to adjustment) during the period from 19th November 2001 to 18th November 2004 (both dates inclusive).
- b. As at 31st March 2004, Huge Top Industrial Ltd. (“Huge Top”) held 173,424,000 Shares. The board of directors of Huge Top only 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 through Perfect Capital International Corp. (“Perfect Capital”) owned more than one-third of the issued shares of Huge Top and is entitled to exercise more than one-third of the voting power at general meetings of Huge Top. Mr. Yao Cho Fai, Andrew owns the entire issued share capital of Perfect Capital.
- c. Ms. Hsu Chi Kung, wife of Dr. Shao You Bao, held 60,000 Warrants.
- d. The interests of the directors in the share options of VSC are separately disclosed in the section headed “Share Option Scheme” below.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES*(Cont'd)***(ii) Long positions in associated corporation — Huge Top**

Name	Type of interest	Attributable interest to the Director	Number of shares and approximate % of shareholding	
Mr. Yao Cho Fai, Andrew <i>(Refer to Note b in (i) above)</i>	— Corporate interest held by Perfect Capital	deemed interest (indirectly)	36	(42.86%)
	— Personal interest	100% (directly)	10	(11.90%)
			<hr/> 46	<hr/> (54.76%)
Ms. Yao Che Li, Miriam	— Personal interest	100% (directly)	5	(5.95%)
Mr. Dong Sai Ming, Fernando	— Personal interest	100% (directly)	5	(5.95%)

Save as disclosed above, as at 31st March 2004, none of the Directors, chief executives of VSC and their associates had any personal, family, corporate or other interests or short positions in the shares, underlying shares or debentures of VSC or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to VSC and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, 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, to be notified to VSC and the Stock Exchange.

Apart from the foregoing, at no time during the year was VSC or any of its subsidiaries a party to any arrangements to enable the Directors or any of their spouses or children under the 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of VSC or any other body corporate, and no Directors or chief executives or their respective spouses or children under 18 years of age had been granted any right to subscribe for equity or debt securities of VSC nor exercised any such right.

DIRECTOR'S INTEREST IN CONTRACTS

Save as disclosed in Note 2 to the accompanying accounts, 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.

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

Other than interests disclosed in the section headed “Directors’ Interests and Short Positions in Shares, Underlying Shares and Debentures” above, as at 31st March 2004, according to the register of interests kept by VSC under section 336 of the SFO, the following entity has interests or short positions in the shares of VSC which fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO:

Name	Number of Warrants	Number of issued Shares	Approximate % of shareholding
Huge Top	—	173,424,000	47.15%

Save as disclosed above, as at 31st March 2004, the Directors are not aware of any other persons who have interests or short positions in the shares, underlying shares or debentures of VSC or any associated corporations (within the meaning of Part XV of the SFO) which would fall to be disclosed to VSC under Divisions 2 and 3 of Part XV of the SFO.

SHARE OPTION SCHEME

A new share option scheme has been adopted by VSC since 12th November 2001 (the “New Share Option Scheme”) to replace a share option scheme which had been adopted on 22nd January 1994 (the “Old Share Option Scheme”) to comply with the current statutory requirements. VSC may grant options to the participants as set out in the New Share Option Scheme. All outstanding options granted by the Old Share Option Scheme had already been lapsed with effect from 23rd January 2004. Summary of the Old Share Option Scheme and the New Share Option Scheme was as follows:

	Old Share Option Scheme	New Share Option Scheme
1. Purpose of the Old and New Share Option Schemes	As an incentive to employees.	To provide incentives to participants to contribute to the VSC Group and/or to enable the VSC Group to recruit and/or to retain high-calibre employees and attract human resources that are valuable to the VSC Group.
2. Participants of the Old and New Share Option Schemes	Directors and/or executives and/ or employees of VSC or its subsidiaries.	Employee/agent/consultant or representative, including any executive or non-executive director, of any member of the VSC Group or any other person who satisfies the selection criteria as set out in the New Share Option Scheme.

SHARE OPTION SCHEME (Cont'd)

	Old Share Option Scheme	New Share Option Scheme
3. Total number of Shares available for issue under the Old and New Share Option Schemes and percentage of issued share capital as at the date of the annual report	<p>No outstanding options unexercised as at the date of the annual report.</p> <p>The maximum number of Shares in respect of which options may be granted (together with options exercised and options then outstanding) under the Old Share Option Scheme and any other scheme involving the issue or grant of options over Shares or other securities of VSC may not exceed such number of Shares as shall represent 10% of the issued shares capital of VSC from time to time, excluding for this purpose Shares issued upon the exercise of options granted pursuant to the Old Share Option Scheme.</p>	<p>VSC may initially grant options representing 35,497,818 Shares under the New Share Option Scheme (i.e. approximately 10% of the issued share capital of VSC as at the date of the approval of the New Share Option Scheme and approximately 9.7% of the issued share capital of VSC as at the date of the annual report).</p> <p>The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Share Option Scheme and any other schemes of VSC and/or its subsidiary (including the Old Share Option Scheme) must not exceed 30% of the Shares in issue from time to time. No options may be granted under any schemes of VSC or its subsidiary if this would result in the 30% limit being exceeded.</p>
4. Maximum entitlement of each participant under the Old and New Share Option Schemes	<p>25% of the aggregate number of Shares for the time being issued and issuable under the Old Share Option Scheme.</p>	<p>The total number of Shares issued and to be issued upon exercise of the options granted to each participant (including exercised, cancelled and outstanding options) within any twelve-month period under the New Share Option Scheme and any other share option scheme(s) of VSC and/or any subsidiary must not exceed 1% of the number of Shares in issue.</p>

SHARE OPTION SCHEME (Cont'd)

	Old Share Option Scheme	New Share Option Scheme
5. The period within which the Shares must be taken up under an option	At any time during a period to be determined and notified by the Directors, which period may commence on the date of grant of an option but shall end in any event not later than ten years from the date of adoption of the Old Share Option Scheme.	Must not be more than ten years from the date of offer of grant of the option.
6. The minimum period for which an option must be held before it can be exercised	No such minimum period specified under the Old Share Option Scheme but the Directors can grant options at terms and conditions as they may think fit to offer.	No such minimum period specified and an option may be exercised in accordance with the terms of the New Share Option Scheme at any time during a period to be notified by the Board of Directors to each grantee.
7. The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be paid	HK\$10 is to be paid as consideration for the grant of option and the option shall be accepted within 28 days from the date of grant or such longer or shorter periods as the Directors may determine.	The acceptance of an option, if accepted, must be made within 28 days from the date on which the offer is made with a non-refundable payment of HK\$10 from the grantee to VSC.
8. The basis of determining the exercise price	The exercise price is determined by the Directors and being not less than the higher of: <ol style="list-style-type: none"> a. 80% of the average closing price of the Shares quoted on the Stock Exchange on the five trading days immediately preceding the date of grant of an option, and 	The exercise price of an option will be at least the highest of: <ol style="list-style-type: none"> a. the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of offer of the grant of the option, which must be a business day,

SHARE OPTION SCHEME (Cont'd)

Old Share Option Scheme

New Share Option Scheme

b. the nominal value of the Shares.

b. the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of offer of the grant of the option, and

c. the nominal value of the Shares.

9. The remaining life of the Old and New Share Option Schemes

The Old Share Option Scheme was adopted on 22nd January 1994 and was originally effective until 22nd January 2004. On 12th November 2001, the Old Share Option Scheme was resolved by the shareholders of VSC to have been terminated thereon.

The New Share Option Scheme shall be valid and effective for a period of ten years commencing on the adoption date i.e. 12th November 2001.

SHARE OPTION SCHEME (Cont'd)

The Old Share Option Scheme was terminated on 12th November 2001. Upon termination of the Old Share Option Scheme, no further options will be granted thereunder but in all other respects, the provisions of the Old Share Option Scheme had remained in force and all options granted prior to such termination shall continue to be valid and exercisable in accordance therewith. All outstanding options granted by the Old Share Option Scheme had already been lapsed with effect from 23rd January 2004. The employee share options outstanding under the Old Share Option Scheme and the New Share Option Scheme during the year were as follows:

Old Share Option Scheme

Name or category of participant	Date of grant	Exercise period	Exercise price per Share	Number of share options				Weighted average closing price of the Shares immediately before the date of exercise
				Beginning of year '000	Exercised during the year '000	Lapsed during the year '000	End of year '000	
<i>Directors:—</i>								
Mr. Yao Cho Fai, Andrew	17th December 1994	15th January 1997 to 15th January 2004	HK\$1.1344	2,000	(2,000)	—	—	} HK\$1.80
	18th January 1996	15th January 1997 to 15th January 2004	HK\$1.2528	2,000	(2,000)	—	—	
	18th March 1996	1st May 1998 to 22nd January 2004	HK\$1.3840	2,900	(2,900)	—	—	
Ms. Yao Che Li, Miriam	17th December 1994	15th January 1997 to 15th January 2004	HK\$1.1344	2,000	(2,000)	—	—	HK\$1.42
Mr. Ho Sai Hou, Johnson	17th December 1994	15th January 1997 to 15th January 2004	HK\$1.1344	500	(500)	—	—	} HK\$1.45
	18th March 1996	1st May 1998 to 22nd January 2004	HK\$1.3840	400	(400)	—	—	
Sub-total				9,800	(9,800)	—	—	
<i>Employees:—</i>								
In aggregate	17th December 1994	15th January 1997 to 15th January 2004	HK\$1.1344	2,000	(2,000)	—	—	} HK\$1.97
In aggregate	18th January 1996	15th January 1997 to 15th January 2004	HK\$1.2528	2,000	—	(2,000)	—	
In aggregate	10th January 2000	1st February 2002 to 22nd January 2004	HK\$1.6880	900	(400)	(500)	—	
Sub-total				4,900	(2,400)	(2,500)	—	
Total of Old Share Option Scheme				14,700	(12,200)	(2,500)	—	

SHARE OPTION SCHEME (Cont'd)

New Share Option Scheme

Name or category of participant	Date of grant	Exercise period	Exercise price per Share	Closing price before grant (Note 2)	Beginning of year '000	Number of share options			End of year '000	Weighted average closing price of the Shares immediately before the date of exercise
						Granted during the year '000	Exercised during the year '000	Lapsed during the year '000		
<i>Directors:—</i>										
Ms. Yao Che Li, Miriam	19th September 2003	19th September 2005 to 18th September 2013	HK\$1.418	HK\$1.42	—	1,000	—	—	1,000	N/A
Mr. Dong Sai Ming, Fernando	19th September 2003	19th September 2005 to 18th September 2013	HK\$1.418	HK\$1.42	—	300	—	—	300	N/A
Mr. Ho Sai Hou, Johnson	19th September 2003	19th September 2005 to 18th September 2013	HK\$1.418	HK\$1.42	—	1,000	—	—	1,000	N/A
Sub-total					—	2,300	—	—	2,300	
<i>Employees:—</i>										
In aggregate	2nd May 2003	2nd May 2003 to 1st May 2013	HK\$0.98	HK\$0.95	—	1,150	(900)	—	250	} HK\$1.59
In aggregate	7th May 2003	7th May 2005 to 6th May 2013 (Note 3)	HK\$0.97	HK\$0.98	—	7,595	—	(1,150)	6,445	
Sub-total					—	8,745	(900)	(1,150)	6,695	
<i>Others:—</i>										
In aggregate	2nd May 2003	2nd May 2003 to 1st May 2013	HK\$0.98	HK\$0.95	—	9,000	(2,000)	—	7,000	HK\$1.87
Sub-total					—	9,000	(2,000)	—	7,000	
Total of New Share Option Scheme					—	20,045	(2,900)	(1,150)	15,995	

Notes:

- For the Old Share Option Scheme and the New Share Option Scheme, the vesting period of the share options is from the date of the grant until the commencement of the exercise period.
- The closing price of the Shares on the Stock Exchange of the trading date immediately before the grant of the options.
- The options to subscribe for Shares at a price of HK\$0.97 per Share are to be exercisable in whole or in part in the following manner:—
 - During the period starting from 7th May 2005 to 6th May 2006, the option may be exercised up to 30% of such Shares.

SHARE OPTION SCHEME (Cont'd)

Notes: (Cont'd)

3. (Cont'd)

- (ii) During the period starting from 7th May 2006 to 6th May 2007, the option may (to the extent not exercised in accordance with (i) above) be exercised up to 70% of such Shares.
- (iii) During the period starting from 7th May 2007 to 6th May 2013, the option may (to the extent not exercised in accordance with (i) and (ii) above) be exercised in full.

Save as disclosed above, no share options were granted, exercised, lapsed or cancelled during the year.

Under the present capital structure of VSC, the exercise of the share options under the Old Share Option Scheme and the New Share Option Scheme during the year had resulted in the issue of 15,100,000 additional ordinary shares of VSC and additional share capital of HK\$1,510,000 and share premium of HK\$16,453,600 (before issuance expenses).

The Directors consider that it is not appropriate to state the value of the share options granted pursuant to the New Share Option Scheme during the year to the employees. The Directors believe that any statement regarding the value of the options will not be meaningful to the shareholders, taking into account the diversified nature of the businesses of the VSC Group (i.e., ranging from (i) China Advanced Materials Processing including manufacturing of industrial products such as rolled flat steel products and enclosure systems and trading of industrial products such as engineering plastic resins and injection moulding machines, and (ii) Construction Materials Group including trading and stockholding of construction materials such as steel products, sanitary ware and kitchen cabinets and the installation work of kitchen cabinets) and the fact that comparable data required for calculation of the value of the options and the weighing of each of such data may not be representative of the diversified nature of the businesses of the VSC Group.

SPECIFIC PERFORMANCE OBLIGATIONS ON CONTROLLING SHAREHOLDER

Reference was made to the HK\$250 million term loan facility agreement dated 27th October 2003 (the "Facility Agreement") with a final maturity in October 2006. The Facility Agreement contains a requirement that Mr. Andrew Cho Fai Yao ("Mr. Yao") and his direct related family members (i.e. Mr. Yao, Ms. Miriam Che Li Yao and Mrs. Yao Lin Shiu Mei, their spouses and their children) shall continue to remain as the single largest shareholder of VSC with at least 30% shareholding of the issued share capital of VSC and Mr. Yao shall maintain the position of Chairman and management control of the VSC Group. The abovementioned obligations have been complied with.

AUDITORS

Arthur Andersen & Co were auditors of VSC for the year ended 31st March 2002. PricewaterhouseCoopers were auditors of VSC for the year ended 31st March 2003 and 2004.

The accompanying accounts were audited by PricewaterhouseCoopers. A resolution for their re-appointment as VSC's 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 & Chief Executive Officer

Hong Kong, 1st June 2004