

Report of the Directors

The Board of Directors ("Board") of Van Shung Chong Holdings Limited ("VSC") are pleased to present their annual report together with the audited accounts of VSC and its subsidiaries (together the "VSC Group") for the year ended 31st March 2006.

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 engineering plastic resins, and (ii) Construction Materials Group including trading and stockholding of construction materials such as steel products, sanitary wares, kitchen cabinets and 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 5 to the accompanying accounts.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st March 2006, the five largest customers of the VSC Group accounted for less than 30% of the VSC Group's total turnover, and the five largest suppliers of the VSC Group accounted for less than 30% 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 2006 are set out in the consolidated income statement on page 77 of this annual report.

VSC has not declared any interim dividend during the year and the Board recommend the payment of a final cash dividend of HK1.1 cents per share. Total cash dividend payable for the year ended 31st March 2006 will amount to HK1.1 cents per share or approximately HK\$4,055,000 (2005: HK\$8,109,000).

SHARE CAPITAL AND SHARE OPTIONS

Details of share capital and share options of VSC are set out in Notes 31 and 32, respectively, to the accompanying accounts.

RESERVES AND RETAINED EARNINGS

Movements in reserves and retained profit of the VSC Group and VSC during the year are set out in Note 33 to the accompanying accounts.

As at 31st March 2006, approximately HK\$53,986,000 (2005: HK\$53,986,000) of VSC's reserves and approximately HK\$11,841,000 (2005: HK\$20,429,000) of VSC's retained earnings were available for distribution to its equity holders, of which HK\$4,055,000 (2005: HK\$8,109,000) has been proposed as final dividend for the year.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither VSC nor any of its subsidiaries has purchased, sold or redeemed any of VSC's shares during the year ended 31st March 2006.

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, INVESTMENT PROPERTIES AND LEASEHOLD LAND AND LAND USE RIGHTS

Details of movements of property, plant and equipment, investment properties and leasehold land and land use rights during the year are set out in Notes 15, 16 and 17, respectively, to the accompanying accounts.

SUBSIDIARIES AND ASSOCIATE

Particulars of VSC's subsidiaries and associate are set out in Notes 19 and 20, respectively, to the accompanying accounts.

BORROWINGS

Particulars of borrowings as at 31st March 2006 are set out in Note 30 to the accompanying accounts.

PENSION SCHEMES

Details of the pension schemes are set out in Note 13 to the accompanying accounts.

CHARITABLE DONATIONS

During the year, the VSC Group made charitable donations of approximately HK\$1,000 (2005: HK\$170,000).

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors of VSC ("Directors") who held office during the year and up to the date of this annual report were:

Executive Directors

Mr. Andrew Cho Fai Yao, *Chairman*
Mr. Fernando Sai Ming Dong

Non-executive Director

Dr. Shao You Bao
(*passed away on 12th March 2006*)

Independent Non-executive Directors

Dr. Chow Yei Ching
Mr. Harold Richard Kahler
Mr. Kenny King Ching Tam
Mr. Xu Lin Bao
(*Appointed on 21st April 2006*)
Mr. Kenneth Woo Shou Ting
(*Resigned on 26th August 2005*)

In accordance with VSC's Bye-laws 86(2) and 87(1), Mr. Xu Lin Bao and Mr. Fernando Sai Ming Dong 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 AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31st March 2006, the interests and short positions of the Directors and chief executives of VSC in the shares of HK\$0.10 each in the capital of VSC ("Shares"), underlying shares and debentures of VSC or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which (a) were required to be notified to VSC and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or (c) were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") to be notified to VSC and the Stock Exchange, were as follows:

(i) Long positions in Shares and options of VSC

| Name | Nature of interest | Attributable interest to the Director | Number of Shares | Approximate percentage | Number of share options <i>(Note b)</i> | Aggregate interest |
|-------------------------------|--|---------------------------------------|------------------|------------------------|--|--------------------|
| Mr. Andrew Cho Fai Yao | – Corporate interest held by Huge Top <i>(Note a)</i> – Personal interest | deemed interest (indirectly) | 173,424,000 | 47.05% | — | 173,424,000 |
| | | 100% (directly) | 1,614,000 | 0.44% | — | 1,614,000 |
| | | | 175,038,000 | 47.49% | — | 175,038,000 |
| Mr. Fernando Sai Ming Dong | – Personal interest | 100% (directly) | 342,000 | 0.09% | 300,000 | 642,000 |
| Mr. Harold Richard Kahler | – Personal interest | 100% (directly) | 66,000 | 0.02% | — | 66,000 |

Notes:

- As at 31st March 2006, Huge Top Industrial Ltd. ("Huge Top") holds 173,424,000 Shares. Mr. Andrew Cho Fai Yao is one of the two directors of Huge Top. Mr. Andrew Cho Fai Yao directly holds approximately 11.91% and indirectly through Perfect Capital International Corp. ("Perfect Capital") owns approximately 42.86% 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. Andrew Cho Fai Yao owns the entire issued share capital of Perfect Capital. These interests of the aforesaid Director in the Shares were corporate interests.
- The interests of the Director in the share options of VSC are separately disclosed in the section headed "Share Option Scheme" below.

(ii) Long positions in associated corporation — Huge Top

| Name | Nature of interest | Attributable interest to the Director | Number of shares | Approximate percentage |
|--|--|--|-------------------------|-------------------------------|
| Mr. Andrew Cho Fai Yao (Refer to Note a in (i) above) | – Corporate interest held by Perfect Capital | deemed interest (indirectly) | 36 | 42.86% |
| | – Personal interest | 100% (directly) | 10 | 11.91% |
| | | | 46 | 54.77% |
| Mr. Fernando Sai Ming Dong | – Personal interest | 100% (directly) | 5 | 5.95% |

Save as disclosed above, as at 31st March 2006, 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 (a) were required to be notified to VSC and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (include interests and short positions which they are taken or deemed to have under such provisions of SFO); or (b) were required pursuant to section 352 of the SFO to be entered in the register referred to therein; or (c) were required pursuant to the Model Code 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 37 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.

PERSONS WHO HAVE INTERESTS OR SHORT POSITIONS WHICH ARE DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO

Other than interests disclosed in the section headed "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, as at 31st March 2006, according to the register of interests kept by VSC under section 336 of the SFO, the following entities have interests or short positions in the shares and underlying Shares of VSC which fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO:

| Name | Nature of interest | Number of Shares | Approximate percentage | Number of share options | Aggregate interest |
|--------------------------|--------------------|-----------------------|------------------------|-------------------------|--------------------|
| Huge Top Industrial Ltd. | Directly | 173,424,000 | 47.05% | — | 173,424,000 |
| Ms. Miriam Che Li Yao | Corporate | 173,424,000 (Note) | 47.05% | — | 173,424,000 |
| | Personal | 2,000,000 | 0.54% | 1,000,000 | 3,000,000 |
| | | 175,424,000 | 47.59% | 1,000,000 | 176,424,000 |

Note: As at 31st March 2006, Huge Top held 173,424,000 Shares. Ms. Miriam Che Li Yao is one of the two directors of Huge Top while the remaining director of Huge Top is Mr. Andrew Cho Fai Yao who is the brother of Ms. Miriam Che Li Yao and therefore is deemed to be interested in these Shares through Huge Top.

Save as disclosed above, as at 31st March 2006, the Directors are not aware of any other persons (other than Directors or chief executives of VSC) 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 share option scheme has been adopted by VSC since 12th November 2001 (the "Share Option Scheme") and VSC may grant options to the participants as set out in the Share Option Scheme. The terms of the Share Option Scheme are contained in a circular sent to shareholders of VSC in October 2001. Summary of the Share Option Scheme was as follows:

1. PURPOSE OF THE SHARE OPTION SCHEME

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 SHARE OPTION SCHEME

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 Share Option Scheme.

3. TOTAL NUMBER OF SHARES AVAILABLE FOR ISSUE UNDER THE SHARE OPTION SCHEME AND PERCENTAGE OF ISSUED SHARE CAPITAL AS AT THE DATE OF THE ANNUAL REPORT

VSC may initially grant options representing 35,497,818 Shares under the Share Option Scheme (i.e. approximately 10% of the issued share capital of VSC as at the date of the approval of the Share Option Scheme and approximately 9.6% of the issued share capital of VSC as at the date of this annual report).

The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of VSC and/or its subsidiary 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.

4. MAXIMUM ENTITLEMENT OF EACH PARTICIPANT UNDER THE SHARE OPTION SCHEME

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 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.

5. THE PERIOD WITHIN WHICH THE SHARES MUST BE TAKEN UP UNDER AN OPTION

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 and an option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be notified by the Board 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

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 of an option will be at least the highest of:

- a. the closing price of the Shares as state 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;
- 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 SHARE OPTION SCHEME

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

The share options outstanding under the Share Option Scheme during the year were as follows:

| Name or category of participant | Date of grant | Exercise period | Exercise price per Share | Number of share options | | |
|---------------------------------|---------------------|--|--------------------------|-------------------------|------------------------|-------------|
| | | | | Beginning of year | Lapsed during the year | End of year |
| | | | | '000 | '000 | '000 |
| <i>Director:</i> | | | | | | |
| Mr. Fernando Sai Ming Dong | 19th September 2003 | 19th September 2005 to 18th September 2013 | HK\$1.418 | 300 | — | 300 |
| Sub-total | | | | 300 | — | 300 |
| <i>Employees:</i> | | | | | | |
| In aggregate | 2nd May 2003 | 2nd May 2003 to 1st May 2013 | HK\$0.98 | 250 | — | 250 |
| In aggregate | 7th May 2003 | 7th May 2005 to 6th May 2013 (Note 2) | HK\$0.97 | 5,900 | (800) | 5,100 |
| In aggregate | 19th September 2003 | 19th September 2005 to 18th September 2013 | HK\$1.418 | 2,000 | (1,000) | 1,000 |
| Sub-total | | | | 8,150 | (1,800) | 6,350 |
| <i>Others:</i> | | | | | | |
| In aggregate | 2nd May 2003 | 2nd May 2003 to 1st May 2013 | HK\$0.98 | 7,000 | — | 7,000 |
| Sub-total | | | | 7,000 | — | 7,000 |
| Total of Share Option Scheme | | | | 15,450 | (1,800) | 13,650 |

Notes:

1. For the Share Option Scheme, the vesting period of the share options is from the date of the grant until the commencement of the exercise period.
2. 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:
 - (i) During the period starting from 7th May 2005 to 6th May 2006, the option may be exercised up to 30% of such Shares.
 - (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.

CONNECTED TRANSACTIONS

Details of related party transactions are set out in Note 37 to the accompanying accounts.

During the year ended 31st March 2006, the VSC Group has the following continuing connected transactions (the "Transactions") in accordance with Chapter 14A of the Listing Rules. The Transactions had been approved by the shareholders of VSC on 1st November 2004 and the details of the Transactions had been disclosed in the circular of VSC dated 15th October 2004 (the "Circular"):

Pursuant to the supply agreement (the "Supply Agreement") dated 17th September 2004 entered into between Shinsho Corporation and VSC Shinsho Company Limited ("VSC Shinsho", a company which is indirectly owned as to 70% by VSC and as to the remaining 30% directly by Shinsho Corporation) agreed that VSC Shinsho and other subsidiaries of VSC may purchase from Shinsho Corporation and its associates (the "Shinsho Group"), from time to time, various steel products for a term commencing from 1st April 2004 up to 31st March 2007. Under the terms of the Supply Agreement, Shinsho Corporation may procure members of the Shinsho Group to carry into effect the transactions contemplated under the Supply Agreement while VSC Shinsho may procure other subsidiaries of VSC to carry into effect the transactions contemplated under the Supply Agreement.

The price for each transaction contemplated under the Supply Agreement will be agreed from time to time between the parties thereto based on the market price of the type of steel products concerned prevailing at the relevant time. The annual aggregate amount payable by VSC Shinsho and other subsidiaries of VSC for such purchases under the Supply Agreement has been capped at HK\$120,000,000, HK\$180,000,000 and HK\$210,000,000 for the three financial years ended 31st March 2005 and 2006 and ending 31st March 2007 respectively according to the Circular.

The Directors, including the independent non-executive Directors, are of the view that the Transactions are essential for the efficient and continuous operation of the VSC Group. Given the Transactions will occur on a regular and continuing basis, the Directors consider that it would not be practicable to announce, or if necessary, obtain prior approval from the shareholders of VSC on each occasion they arise. Accordingly, VSC convened

and held a special general meeting on 1st November 2004 and the ordinary resolution to approve the Transactions and the relevant caps for a 3-year period ending 31st March 2007 was approved by the independent shareholders of VSC.

The independent non-executive Directors have confirmed that the Transactions have been entered into (a) in the ordinary and usual course of business of the VSC Group; (b) on normal commercial terms or on terms no less favourable to the VSC Group than terms available to or from independent third parties; and (c) in accordance with the relevant agreement(s) governing them on terms that are fair and reasonable and in the interests of the shareholders of VSC as a whole.

PricewaterhouseCoopers, the auditors of VSC have also performed agreed-upon procedures and have issued a report to the Board stating the factual findings resulting from their work, the Transactions:- (a) have received the approval of the Board; (b) are in accordance with the pricing policy of the VSC Group if those transactions involve the provision of goods or services by the VSC Group; (c) have been entered into in accordance with the relevant agreement(s) governing the Transactions; and (d) have not exceeded the respective caps agreed with the Stock Exchange.

COMPETING INTERESTS

Mr. Andrew Cho Fai Yao ("Mr. Yao") is the chairman of the Board of VSC, and also an executive director of North Asia Strategic Holdings Limited ("NAS", formerly known as iSteelAsia Holdings Limited, listed on the Growth Enterprise Market of the Stock Exchange).

NAS is principally engaged in the trading of steel products, provision of procurement services for steel products (including the operation of an e-commerce vertical portal for the provision of online steel trading services and ancillary services), and investment holding. There may be a possibility that the steel trading business of NAS may compete with that of the VSC Group. However, the Directors are also of the view that the invaluable experience of Mr. Yao in the steel industry will complement the development of the VSC Group's business.

The Directors are satisfied that the VSC Group functions independently of and on arm's lengths basis from NAS and its subsidiaries ("NAS Group") on the basis that the majority of the executive Directors and the senior management are independent of the NAS Group and operations of the two groups are conducted by separate teams of staff. Other than the one common executive director, Mr. Yao, and a common independent non-executive director, Mr. Kenny King Ching Tam, there is no overlap of management personnel for the operations within the two groups.

As Mr. Yao is a director of both VSC and NAS, in case there is any potential conflict of interests, Mr. Yao will abstain from voting in the relevant board of directors' meeting.

Save as disclosed above, none of the Directors or the controlling shareholders of VSC or any of their respective associates has engaged in any business that competes or may compete directly or indirectly with the businesses of the VSC Group or has any other conflict of interests with the VSC Group.

SUFFICIENCY OF PUBLIC FLOAT

Based on information publicly available to VSC and within the knowledge of the Directors as at the date of this annual report, VSC has maintained the prescribed public float under the Listing Rules.

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. 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. As at the year end, VSC had fully repaid the loan under the Facility Agreement.

AUDITORS

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

Andrew Cho Fai Yao

Chairman

Hong Kong, 14th July 2006