THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional advisers.

If you have sold or transferred all your shares in the Company, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of the Company.

VSC万顺昌

VAN SHUNG CHONG HOLDINGS LIMITED

Website: http://www.vschk.com

(Incorporated in Bermuda with limited liability)

(Stock Code: 1001)

(1) PROPOSED OPEN OFFER ON THE BASIS OF ONE OFFER SHARE FOR EVERY TWO SHARES HELD ON THE RECORD DATE; (2) APPLICATION FOR WHITEWASH WAIVER; AND (3) NOTICE OF SPECIAL GENERAL MEETING

Underwriter to the Open Offer
PERFECT CAPITAL INTERNATIONAL CORP.

Financial Adviser to the Company

時富金融 CFSG

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

VINCO 城高

Grand Vinco Capital Limited
(A wholly-owned subsidiary of Vinco Financial Group Limited)

Capitalised terms used in this cover page have the same meanings as those defined in this circular.

A letter from the Board is set out on pages 10 to 32 in this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 33 to 34 in this circular. A letter from Vinco Capital containing its advice in respect of the Open Offer, the Underwriting Agreement and Whitewash Waiver (together with the transactions contemplated thereunder) to the Independent Board Committee and the Independent Shareholders is set out on pages 35 to 67 in this circular.

A notice convening the SGM to be held at 10:30 a.m. on Wednesday, 12 November 2014 at Rooms 4903-7, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong is set out on pages 192 to 194 in this circular. A form of proxy for use at the SGM is enclosed. Whether or not you are able to attend the SGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre,183 Queen's Road East, Wanchai, Hong Kong, as soon as practicable but in any event not later than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof (as the case may be) should you so wish.

Shareholders and potential investors should note that the Open Offer is conditional upon the Underwriting Agreement having become unconditional (please refer to the paragraph headed "Conditions of the Open Offer" in the Letter from the Board of this circular) and the Underwriter not having terminated the Underwriting Agreement in accordance with the terms thereof (please refer to the section headed "Termination of the Underwriting Agreement" in this circular). Accordingly, the Open Offer may or may not proceed. Shareholders and potential investors should exercise caution when dealing in the securities of the Company, and if they are in any doubt about their positions, they should consult their professional advisers.

Shareholders and potential investors should note that the Shares are expected to be dealt in on an ex-entitlement basis commencing from Friday, 14 November 2014 and that dealings in Shares will take place while the conditions to which the Open Offer is subject remain unfulfilled. Any Shareholders or other persons dealing in Shares up to the date on which all conditions to which the Open Offer is subject are fulfilled (which is expected to be on 4:00 p.m. on Wednesday, 10 December, 2014), will accordingly bear the risk that the Open Offer cannot become unconditional and may not proceed. Any Shareholders or other persons contemplating selling or purchasing Shares, who are in any doubt about their positions, is recommended to consult their professional advisers.

23 October 2014

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The expected timetable of the Open Offer is as follows:

All times stated in this circular refer to Hong Kong times. The Company will make further announcement if there is any change to the timetable below. Dates or deadlines specified in this circular for events in the timetable below for (or otherwise in relation to) the Open Offer are indicative only and may be extended or varied by the Company. Any changes to the anticipated timetable for the Open Offer, if required, will be published or notified to the Shareholders and the Stock Exchange as and when appropriate.

Latest time for lodging transfers of Shares to qualify for attendance at the SGM	4:30 p.m. on Wednesday, 5 November 2014
Latest time for lodging proxy form for the SGM	10:30 a.m. on Monday, 10 November 2014
Register of members closes for determining the rights to attend the SGM (both dates inclusive)	Thursday, 6 November 2014 to Wednesday, 12 November 2014
Record date for attendance and voting at the SGM	Wednesday, 12 November 2014
SGM	10:30 a.m. on Wednesday, 12 November 2014
Announcement of poll results of SGM	Wednesday, 12 November 2014
Last day of dealings in the Shares on cum-entitlement basis	Thursday, 13 November 2014
First day of dealings in the Shares on ex-entitlement basis	Friday, 14 November 2014
Latest time for lodging transfers of Shares to qualify for the Open Offer	4:30 p.m. on Monday, 17 November 2014
Register of member closes for determining the eligibility of the Open Offer (both dates inclusive)	Tuesday, 18 November 2014 to Monday, 24 November 2014

Record Date	Monday, 24 November 2014
Despatch of (i) Prospectus Documents to Qualifying Shareholders and (ii) Overseas Letter and Prospectus to Excluded Shareholders (if any)	Tuesday, 25 November 2014
Latest time for acceptance and payment for Offer Shares	4:00 p.m. on Tuesday, 9 December 2014
Latest time for termination of the Underwriting Agreement and for the Open Offer to become unconditional	4:00 p.m. on Wednesday, 10 December 2014
Announcement of results of acceptance of the Open Offer	Tuesday, 16 December 2014
Despatch of share certificates for Offer Shares	Wednesday, 17 December 2014
Dealings in Offer Shares commence	9:00 a.m. on Thursday, 18 December 2014

EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE AND PAYMENT FOR THE OFFER SHARES

The latest time for acceptance and payment for Offer Shares will not take place if there is a tropical cyclone warning signal no. 8 or above, or a "black" rainstorm warning signal:

(i) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on Tuesday, 9 December 2014. Instead the latest time for acceptance and payment for the Offer Shares will be extended to 5:00 p.m. on the same Business Day; and

(ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on Tuesday, 9 December 2014. Instead the latest time of acceptance and payment for the Offer Shares will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m..

If the latest time for acceptance and payment for the Offer Shares does not take place on Tuesday, 9 December 2014, the dates mentioned in the section headed "Expected Timetable" in this circular may be affected. The Company will notify the Shareholders by way of announcement(s) of any change to the expected timetable as soon as practicable.

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

"acting in concert"	has the meaning ascribed thereto under the Takeovers Code
"Announcement"	the announcement of the Company dated 24 September 2014 relating to, among other things, the Open Offer, the Underwriting Agreement and the Whitewash Waiver
"associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Board"	the board of Directors
"Business Day"	a day (other than a Saturday, Sunday, public holiday and a day on which a tropical cyclone warning signal no. 8 or above or a "black" rainstorm warning signal is hoisted in Hong Kong at any time between 9:00 a.m. and 4:00 p.m.) on which licensed banks are open for general banking business in Hong Kong
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"Companies Act"	the Companies Act 1981 of Bermuda (as amended)
"Company" or "VSC"	Van Shung Chong Holdings Limited, a company incorporated in Bermuda with limited liability, whose Shares are listed on the Main Board of the Stock Exchange
"connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"controlling Shareholder(s)"	has the meaning ascribed thereto under the Listing Rules
"Director(s)"	director(s) of the Company
"Excluded Shareholder(s)"	those Overseas Shareholder(s) whom the Directors, based on legal opinions provided by the Company's legal advisers, consider that it is necessary or expedient to exclude such Overseas Shareholder(s) from the Open Offer on account either of legal restrictions under the laws of the relevant places or the requirements of the relevant regulatory body or stock exchange in such places

"Executive"	the executive director of the corporate finance division of the SFC or any delegate of the executive director
"Group"	the Company and its subsidiaries
"HKSCC"	Hong Kong Securities Clearing Company Limited
"HK$"	Hong Kong dollar, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Huge Top"	Huge Top Industrial Ltd., a controlling Shareholder, directly holds 173,424,000 Shares, representing approximately 41.15% equity interests in the Company. It is owned as to approximately 42.86% by the Underwriter; as to approximately 11.90% by Mr. Andrew Yao; as to approximately 5.95% by Ms. Miriam Yao; and as to approximately 15.49% by Mr. Dong. Mr. Andrew Yao is entitled to exercise more than one-third of the voting power at general meetings of Huge Top through his direct and indirect interests in it. The remaining equity interests of approximately 23.80% in Huge Top are held by 3 other relatives of Mr. Andrew Yao and Ms. Miriam Yao. Save for Mr. Andrew Yao, Ms. Miriam Yao and Mr. Dong, no shareholder of Huge Top is also the Shareholder having any interest in the Company. Both Mr. Andrew Yao and Ms. Miriam Yao are the directors of Huge Top
"Independent Board Committee"	an independent board committee of the Board comprising all non-executive Directors (except for Mr. Dong who is a person acting in concert with the Underwriter, holding approximately 15.49% equity interests in Huge Top) which has been established to advise the Independent Shareholders on the terms of the Open Offer, the Underwriting Agreement and the Whitewash Waiver
"Independent Shareholders"	Shareholders other than the Underwriter and persons acting in concert with it and their respective associates and any Shareholders who are involved or interested in the transactions regarding the Open Offer (save for any assured entitlement to the Open Offer as a Qualifying Shareholder), the Underwriting Agreement and/or the Whitewash Waiver

"Last Trading Day"	Wednesday, 24 September 2014, being the date of the Underwriting Agreement
"Latest Practicable Date"	Monday, 20 October 2014, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Mr. Andrew Yao"	Mr. Yao Cho Fai Andrew, the chairman of the Company and the executive Director, who directly holds approximately 0.62% equity interests in the Company and directly holds 100% equity interests in the Underwriter, which in turn directly holds approximately 42.86% equity interests in Huge Top. Mr. Andrew Yao is also a director of the Underwriter and Huge Top
"Mr. Dong"	Mr. Dong Sai Ming Fernando, the non-executive Director, who directly holds approximately 0.03% equity interests in the Company and approximately 15.49% equity interests in Huge Top
"Ms. Miriam Yao"	Ms. Yao Che Li Miriam, the sister of Mr. Andrew Yao, who directly holds approximately 0.47% equity interests in the Company and approximately 5.95% equity interests in Huge Top. Ms. Miriam Yao is also a director of Huge Top
"Offer Share(s)"	new Share(s) to be issued and allotted under the Open Offer, being not less than 210,757,625 Shares and not more than 220,304,125 Shares
"Open Offer"	the proposed issue of the Offer Shares on the basis of one (1) Offer Share for every two (2) Shares in issue and held on the Record Date at the Subscription Price on the terms and subject to the conditions set out in the Underwriting Agreement and the Prospectus Documents

"Option Undertakings"	the respective and irrevocable undertakings provided by Mr. Andrew Yao and Mr. Frank Muñoz (being the executive Directors), Mr. Dong (being the non-executive Director), Mr. Tam King Ching Kenny, Mr. Xu Lin Bao and Mr. Tse Lung Wa Teddy (being the independent non-executive Directors) to the Company and the Underwriter that they will not exercise any Share Options carrying rights to subscribe for a total of 5,700,000 new Shares granted to them within the period commencing from the date of the Underwriting Agreement and ending on the Settlement Date
"Overseas Letter"	the letter from the Company to the Excluded Shareholders explaining the circumstances in which the Excluded Shareholders are not permitted to participate in the Open Offer
"Overseas Shareholder(s)"	Shareholder(s) whose name(s) appear(s) on the register of members of the Company at the close of business on the Record Date and whose address(es) as shown on such register is(are) outside Hong Kong
"Posting Date"	Tuesday, 25 November 2014 (or such other date as the Underwriter may agree in writing with the Company), as the date of despatch of the Prospectus Documents to the Qualifying Shareholders or the Overseas Letter and Prospectus for information only (as the case may be) to the Excluded Shareholders
"PRC" or "China"	the People's Republic of China, which for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Prospectus"	the prospectus to be despatched to the Shareholders containing details of the Open Offer
"Prospectus Documents"	the Prospectus and the application form in respect of the assured entitlements of the Offer Shares

"Qualifying Shareholders"	Shareholders, other than the Excluded Shareholders, whose names appear on the register of members of the Company as at the close of business on the Record Date
"Record Date"	Monday, 24 November 2014 (or such other date as the Underwriter may agree in writing with the Company), as the date by reference to which entitlements to the Open Offer are expected to be determined
"Registrar"	the branch share registrar of the Company in Hong Kong, being Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong
"Settlement Date"	Thursday, 11 December 2014 (or such other date as the Underwriter and the Company may agree in writing)
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGM"	the special general meeting of the Company to be held at 10:30 a.m. on Wednesday, 12 November 2014 at Rooms 4903-7, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong to consider and, if thought fit, approve the Open Offer, the Underwriting Agreement and the Whitewash Waiver (together with the transactions contemplated thereunder)
"Share(s)"	ordinary share(s) of HK$0.10 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Shares

"Share Options"	outstanding share options carrying rights to subscribe for an aggregate of 36,733,000 new Shares granted by the Company under the old share option scheme adopted by the Company on 12 November 2001 and terminated on 11 August 2011 and the new share option scheme adopted by the Company on 11 August 2011, among which (i) Share Options carrying rights to subscribe for a total of 11,940,000 new Shares are unvested as at the Latest Practicable Date and only exercisable after the Record Date; (ii) Share Options carrying rights to subscribe for a total of 1,500,000 new Shares, 200,000 new Shares and 4,000,000 new Shares, which are vested and exercisable as at the Latest Practicable Date and before the Record Date, are held by Mr. Andrew Yao, Mr. Dong and other Directors who are holding the Share Options respectively, who have provided the Option Undertakings; and (iii) Share Options carrying rights to subscribe for a total of 19,093,000 new Shares, which are vested and exercisable as at the Latest Practicable Date and before the Record Date, are held by employees of the Group or others
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription Price"	HK$0.50 per Offer Share
"substantial Shareholder(s)"	has the meaning ascribed thereto under the Listing Rules
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"Underwriter"	Perfect Capital International Corp., a company solely and beneficially owned by Mr. Andrew Yao. The Underwriter directly holds approximately 42.86% equity interests in Huge Top, which in turn directly holds approximately 41.15% equity interests in the Company. Mr. Andrew Yao is the sole director of the Underwriter
"Underwriting Agreement"	the underwriting agreement dated 24 September 2014 entered into between the Company and the Underwriter in relation to the underwriting arrangement in respect of the Open Offer

"Underwritten Shares"	not less than 209,451,625 Offer Shares and not more than 218,998,125 Offer Shares underwritten by the Underwriter pursuant to the terms of the Underwriting Agreement
"Untaken Shares"	Offer Shares not taken up at or before 4:00 p.m. on Tuesday, 9 December 2014, being the last date of acceptance and payment for Offer Shares
"Vinco Capital"	Grand Vinco Capital Limited, a wholly-owned subsidiary of Vinco Financial Group Limited (stock code: 8340), a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Open Offer, the Underwriting Agreement and Whitewash Waiver (together with the transactions contemplated thereunder)
"Whitewash Waiver"	a waiver of the obligation of the Underwriter and persons acting in concert with it to make a mandatory general offer as a result of the underwriting of the Open Offer for all the Shares not already owned, controlled or agreed to be acquired by them pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code by the Executive as refer in this circular
"%" or "per cent"	per cent

TERMINATION OF THE UNDERWRITING AGREEMENT

The Underwriter reserves the right to terminate the underwriting arrangements set out in the Underwriting Agreement by notice in writing given by the Underwriter to the Company at any time prior to 4:00 p.m. on Wednesday, 10 December 2014, if:

(a) it has come to the notice of the Underwriter:

  (i) that any statement, considered reasonably by the Underwriter to be material, contained in the Prospectus Documents was when the Prospectus Documents were issued, or has become untrue, incorrect or misleading in any material respect; or

  (ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the Posting Date, constitute an omission therefrom reasonably considered by the Underwriter to be material; or

  (iii) any breach of the warranties contained in the Underwriting Agreement reasonably considered by the Underwriter to be material; or

  (iv) any event, act or omission which in the reasonable opinion of the Underwriter give or are likely to give rise to any material liability of the Company; or

  (v) any material breach of any material obligations or undertakings of the Company contained in the Underwriting Agreement; or

  (vi) any adverse change in the business or in the financial or trading position of any member of the Group which is material in the context of the Open Offer;

(b) in the reasonable opinion of the Underwriter, the success of the Open Offer would be materially and adversely affected by:

  (i) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or

(ii) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date hereof) of a political, military, financial, economic, currency or other nature (whether or not sui generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities market which materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially or adversely prejudice the success of the Open Offer or otherwise makes inexpedient or inadvisable to proceed with the Open Offer; or

(c) any change in market conditions (including without limitation suspension or material restriction or trading in securities) occurs which, in the reasonable opinion of the Underwriter, is likely to materially or adversely affect the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or

(d) any change in the circumstances of the Company or any members of the Group which will, in the reasonable opinion of the Underwriter, materially or adversely affect the prospect of the Company.

If prior to 4:00 p.m. on Wednesday, 10 December 2014 any such notice referred to above is given by the Underwriter, the obligations of all parties under the Underwriting Agreement shall cease and determine and no party to the Underwriting Agreement shall have any claim against any other party in respect of any matter or thing arising out of or in connection with the Underwriting Agreement provided however that the Company shall remain liable to pay the costs, charges and expenses howsoever of or incidental to the Open Offer.

If the Underwriting Agreement is terminated by the Underwriter prior to 4:00 p.m. on Wednesday, 10 December 2014 or does not become unconditional, the Open Offer will not proceed. A further announcement will be made by the Company if the Underwriting Agreement is terminated by the Underwriter.

VSC万顺昌

VAN SHUNG CHONG HOLDINGS LIMITED

Website: http://www.vschk.com

(Incorporated in Bermuda with limited liability)

(Stock Code: 1001)

Executive Directors:
Mr. Yao Cho Fai Andrew *(Chairman)*
Mr. Frank Muñoz *(Chief Executive Officer)*

Non-executive Director:
Mr. Dong Sai Ming Fernando

Independent non-executive Directors:
Mr. Tam King Ching Kenny
Mr. Xu Lin Bao
Mr. Tse Lung Wa Teddy
Mr. Yeung Wing Sun Mike

Registered office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Head office and principal place of business in Hong Kong:
Rooms 4903-7, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

23 October 2014

To the Shareholders and, for information only, the holders of the Share Options

Dear Sir or Madam,

(1) PROPOSED OPEN OFFER ON THE BASIS OF ONE OFFER SHARE FOR EVERY TWO SHARES HELD ON THE RECORD DATE; AND (2) APPLICATION FOR WHITEWASH WAIVER

INTRODUCTION

Reference is made to the Announcement in relation to, among other things, the Open Offer, the Underwriting Agreement and the Whitewash Waiver.

The Company proposed to raise approximately HK$105.4 million to approximately HK$110.2 million, before expenses, by issuing not less than 210,757,625 Offer Shares and not more than 220,304,125 Offer Shares to the Qualifying Shareholders at the Subscription Price of HK$0.50 per Offer Share under the Open Offer on the basis of one (1) Offer Share for every two (2) Shares held on the Record Date. The Open Offer is only available to the Qualifying Shareholders. There is no arrangement for application of the Offer Shares by the Qualifying Shareholders in excess of their proportionate assured allotments under the Open Offer. The Open Offer is fully underwritten by the Underwriter.

The purpose of this circular is to provide you with, among other things, (i) further information regarding details of the Open Offer, the Underwriting Agreement and the Whitewash Waiver; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from Vinco Capital to the Independent Board Committee and the Independent Shareholders in respect of the Open Offer, the Underwriting Agreement and the Whitewash Waiver; (iv) the notice of the SGM; and (v) other information as required under the Listing Rules and the Takeovers Code.

The Independent Board Committee has been formed to advise the Independent Shareholders in the respect of the Open Offer, the Underwriting Agreement and the Whitewash Waiver, and Vinco Capital has been appointed as the independent financial adviser of the Company to advise the Independent Board Committee and the Independent Shareholders in this regard.

PROPOSED OPEN OFFER

Issue statistics

Basis of the Open Offer	:	One (1) Offer Share for every Two (2) Shares held by the Qualifying Shareholders on the Record Date
Subscription Price	:	HK$0.50 per Offer Share with nominal value of HK$0.10 each
Number of Shares in issue as at the Latest Practicable Date	:	421,515,251 Shares

Number of Offer Shares	:	Not less than 210,757,625 Offer Shares (assuming no further issue of new Shares on or before the Record Date) and not more than 220,304,125 Offer Shares (assuming all the outstanding and exercisable Share Options (after taking into account the Option Undertakings) are exercised and no other issue of new Shares on or before the Record Date) *(Note)*
Number of Offer Shares to be subscribed by Mr. Andrew Yao	:	1,306,000 Offer Shares, being all of the Offer Shares to be allotted on an assured basis to Mr. Andrew Yao, based on 2,612,000 Shares held by him as at the Latest Practicable Date
Number of Offer Shares underwritten by the Underwriter	:	All Offer Shares (other than those irrevocably undertaken to be subscribed by Mr. Andrew Yao), being not less than 209,451,625 Offer Shares (assuming no further issue of new Shares on or before the Record Date) and not more than 218,998,125 Offer Shares (assuming all the outstanding and exercisable Share Options (after taking into account the Option Undertakings) are exercised and no other issue of new Shares on or before the Record Date)
Number of Shares in issue immediately upon completion of the Open Offer	:	Not less than 632,272,876 Shares (assuming no further issue of new Shares on or before the Record Date) and not more than 660,912,376 Offer Shares (assuming all the outstanding and exercisable Share Options (after taking into account the Option Undertakings) are exercised and no other issue of new Shares on or before the Record Date)

Note: As at the Latest Practicable Date, the Company has outstanding Share Options carrying rights to subscribe for a total of 36,733,000 new Shares. Among all outstanding Share Options, (i) Share Options carrying rights to subscribe for a total of 11,940,000 new Shares are unvested as at the Latest Practicable Date and only exercisable after the Record Date; (ii) Share Options carrying rights to subscribe for a total of 1,500,000 new Shares, 200,000 new Shares and 4,000,000 new Shares, which are vested and exercisable as at the Latest Practicable Date and before the Record Date, are held by Mr. Andrew Yao, Mr. Dong and other Directors who are holding the Share Options respectively, who have irrevocably undertaken to the Company that they will not exercise any Share Options granted to them within the period commencing from the date of the Underwriting Agreement and ending on the Settlement Date; and (iii) Share Options carrying rights to subscribe for a total of 19,093,000 new Shares, which are vested and exercisable as at the Latest Practicable Date and before the Record Date, are held by employees of the Group or others. Assuming no further grant of Share Options by the Company and full exercise of the subscription rights attaching to the 19,093,000 outstanding and exercisable Share Options granted on and before the Record Date, an additional 9,546,500 Offer Shares will be issued.

Save for the Share Options, as at the Latest Practicable Date, the Company has no outstanding convertible securities, options or warrants in issue which confer any right to subscribe for, convert or exchange into Shares.

Pursuant to the Underwriting Agreement, the Company has undertaken that it shall not issue any Shares or issue or grant any Share Options or other securities convertible into, exchangeable for or which carry rights to acquire the Shares (other than the Offer Shares or the issue of Shares pursuant to the exercise of the Share Options) from the date of the Underwriting Agreement until after Tuesday, 9 December 2014, being the last date of acceptance and payment for Offer Shares.

Assuming the Share Options are not exercised and there will not be any further issue of new Shares or repurchase of Shares on or before the Record Date, the 210,757,625 Offer Shares proposed to be allotted represent 50% of the Company's issued share capital as at the Latest Practicable Date and approximately 33.3% of the Company's issued share capital as enlarged by the issue of the Offer Shares.

Qualifying Shareholders

The Open Offer is only available to the Qualifying Shareholders and the invitation to subscribe for the Offer Shares to be made to the Qualifying Shareholders will not be transferable. The Company will send the Prospectus Documents to the Qualifying Shareholders, if the Independent Shareholders approve the Open Offer, the Underwriting Agreement and the Whitewash Waiver.

To qualify for the Open Offer, a Shareholder must be registered as a member of the Company at the close of business on the Record Date; and not to be an Excluded Shareholder. Shareholders having an address in Hong Kong on the register of members of the Company at the close of business on the Record Date are qualified for the Open Offer. Shareholders having an address outside Hong Kong on the register of members of the Company at the close of business on the Record Date are qualified for the Open Offer, only if the Board, after making relevant enquiry regarding the legal restrictions under the laws of the relevant place or the requirement of the relevant regulatory body or stock exchange in that place pursuant to Rule 13.36(2)(a) of the Listing Rules, considers that it would not be necessary or expedient to exclude these Shareholders from participating in the Open Offer.

In order to be registered as members of the Company at the close of business on the Record Date, Shareholders must lodge any transfer documents of Shares (together with the relevant share certificates) with the Registrar no later than 4:30 p.m. on Monday, 17 November 2014.

Closure of register of members

The register of members of the Company will be closed from Thursday, 6 November 2014 to Wednesday, 12 November 2014, both dates inclusive for determining the rights to attend the SGM.

The register of members of the Company will be closed from Tuesday, 18 November 2014 to Monday, 24 November 2014, both dates inclusive for determining the eligibility of the Open Offer.

No transfer of Shares will be registered during the respective book close periods.

Entitlements of the Overseas Shareholders

If, at the close of business on the Record Date, any Shareholder's address on the register of members of the Company is in a place outside Hong Kong, that Shareholder may not be eligible to take part in the Open Offer as the Prospectus Documents are not intended to be registered under the applicable securities legislation of any jurisdiction other than Hong Kong. A copy of the Prospectus will be filed with the Registrar of Companies in Bermuda on or as soon as reasonably practicable after the publication of the Prospectus pursuant to the Companies Act (if necessary).

According to the register of members of the Company as at the Latest Practicable Date, there were three Overseas Shareholders with registered addresses located in Canada, Singapore and the United Kingdom respectively. The Directors have, in compliance with Rule 13.36(2)(a) of the Listing Rules, made enquiries to its legal advisers regarding the feasibility of extending the Open Offer to these Overseas Shareholders. Based on the preliminary opinions of such legal advisers obtained as of the Latest Practicable Date, the Directors considered that it is expedient for the Offer Shares to be offered to the Overseas Shareholders in Singapore and the United Kingdom; and it is expedient for the Offer Shares not to be offered to the Overseas Shareholder in Canada after considering the legal costs and procedures for compliance with the relevant laws or regulations and requirements of the regulatory bodies in Canada.

The Company will continue to ascertain where there is any Overseas Shareholder on the Record Date and will, if applicable, make further enquiries with legal adviser(s) in other overseas jurisdiction(s) regarding the feasibility of extending the Open Offer to the Overseas Shareholders on the Record Date and make relevant disclosures in the Prospectus (if any). Further information in this connection will be set out in the Overseas Letter and the Prospectus. The Offer Shares which would otherwise be allotted to the Excluded Shareholders will be taken up by the Underwriter.

The Company will send the Overseas Letter and the Prospectus to the Excluded Shareholders for information only, if the Independent Shareholders approve the Open Offer, the Underwriting Agreement and the Whitewash Waiver. As long as the Excluded Shareholders are Independent Shareholders, they are entitled to vote on all resolutions at the SGM.

Overseas Shareholders should note that they may or may not be entitled to the Open Offer. Accordingly, Overseas Shareholders should exercise caution when dealing in the securities of the Company.

Subscription Price

The Subscription Price is HK$0.50 per Offer Share, payable in full by a Qualifying Shareholder upon acceptance of the assured allotment under the Open Offer. The Subscription Price represents:

(a) a discount of approximately 63.24% to the closing price of HK$1.360 per Share as quoted on the Stock Exchange on the Last Trading Day;

(b) a discount of approximately 62.96% to the average closing price of HK$1.350 per Share as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day;

(c) a discount of approximately 53.42% to the theoretical ex-entitlement price of approximately HK$1.073 per Share based on the closing price of HK$1.360 per Share as quoted on the Stock Exchange on the Last Trading Day;

(d) a discount of approximately 73.28% to the audited net asset value of approximately HK$1.871 per Share (calculated by dividing the audited consolidated net asset value of the Company as at 31 March 2014 as shown in the annual report of the Company for the financial year ended 31 March 2014 by the total number of Shares in issue as at 31 March 2014);

(e) a discount of approximately 57.26% to the closing price of HK$1.170 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

(f) a discount of approximately 47.18% to the theoretical ex-entitlement price of approximately HK$0.947 per Share based on the closing price of HK$1.170 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Subscription Price was determined after arm's length negotiations between the Company and the Underwriter with reference to the prevailing market price and trading liquidity of the Shares prior to the Last Trading Day. Taking into account the theoretical ex-entitlement price per Share, the Directors consider that the Subscription Price is appropriate. The Directors also taken into account the uncertain market sentiment in recent equity market; the potential dilution impact; operating results and the net asset position of the Company as at 31 March 2014 and future development of the Group when determined the Subscription Price. The Directors consider that the Subscription Price at a relatively deep discount ranged from 53.42% to 63.24% prior to the Last Trading Day to the prevailing market price of Shares as set out above is an appropriate benchmark. Given that each Qualifying Shareholder is entitled to subscribe for the Offer Shares at the same price in proportion to his/her/its shareholding in the Company on the Record Date, although there will be potential dilution impact on Excluded Shareholder(s) (if any) and Qualifying Shareholder who chooses not to take up any of his/her/its assured entitlement under the Open Offer, the Directors consider the terms of the Open Offer, including the Subscription Price which has been set at a relatively deep discount to the recent closing prices of the Shares with an objective to lower the further investment cost of existing Shareholders and encourage them to take up their entitlements so as to participate in the potential growth of the Group and minimise the potential dilution effect, to be fair and reasonable and in the best interests of the Company and the Shareholders as a whole.

The net price per Offer Share upon full acceptance of the assured allotment of Offer Shares will be approximately HK$0.473 (assuming no further issue of new Shares on or before the Record Date), or approximately HK$0.474 (assuming all outstanding Share Options (after taking into account the Option Undertakings) are exercised and no other issue of new Shares on or before the Record Date).

Fractions of Offer Shares

Fractions of the Offer Shares will not be allotted to the Qualifying Shareholders and fractional entitlements will be round down to the nearest whole number of Offer Shares. Any Offer Shares created from the aggregation of fraction of Offer Shares will be aggregated and taken up by the Underwriter.

Odd lot arrangement

There will be no odd lot arrangement in relation to and as a result of the Open Offer, given that there is only a few number of Shareholders holding 2,000 Shares (i.e. 1 board lot) on the register of members of the Company as at the Latest Practicable Date who may create new odd lots if they take up their entitlements under the Open Offer and it appears to be not cost-effective for the Company to appoint any designated broker to stand in the market to provide matching services for odd lots of the Offer Shares, comparing the fees to be charged by such broker and the market value of such odd lot of the Offer Shares. The Directors consider the Open Offer with no odd lot arrangement is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Status of the Offer Shares

The Offer Shares, when allotted and fully paid, will rank pari passu in all respects with the Shares in issue on the date of allotment of the Offer Shares. Holders of the Offer Shares will be entitled to receive all future dividends and distributions which are declared, made or paid after the date of allotment of the Offer Shares.

No application for excess Offer Shares

There is no arrangement for application of the Offer Shares by Qualifying Shareholders in excess of their proportionate assured allotments under the Open Offer. Considering that each Qualifying Shareholder will be given an equal and fair opportunity to participate in the Open Offer, the Company considers that if application for excess application of the Offer Shares is arranged, the Company would require putting in additional effort and costs to administer the excess application procedures. The Directors, after taking into account of the equal entitlements to all Qualifying Shareholders under the Open Offer and the relatively deep discount of the Subscription Price (to encourage Qualifying Shareholders to participate in the Open Offer), consider the Open Offer is fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, after arm's length negotiations with the Underwriter, the Board has decided that no excess application of the Offer Shares will be offered to the Qualifying Shareholders. Any Untaken Shares will be underwritten by the Underwriter pursuant to the terms of the Underwriting Agreement. In compliance with Rule 7.26A(2) of the Listing Rules, the absence of excess application arrangement and the alternative arrangement for the disposal of the Offer Shares not being subscribed must be specially approved by the Independent Shareholders at the SGM.

Share certificates for the Open Offer

Subject to the fulfillment of the conditions of the Open Offer, share certificates for the Offer Shares are expected to be posted to those entitled thereto by ordinary post at their own risk on or before Wednesday, 17 December 2014.

Application for listing

The Company will apply to the Stock Exchange for the listing of and permission to deal in, the Offer Shares.

Subject to the granting of the listing of, and permission to deal in, the Offer Shares on the Stock Exchange as well as compliance with the stock admission requirement of HKSCC, the Offer Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Offer Shares on the Stock Exchange or such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Dealings in the Offer Shares will be subject to the payment of stamp duty and other applicable fees and charges in Hong Kong.

The board lot size for trading of the Offer Shares is 2,000 Shares.

Conditions of the Open Offer

The Open Offer is conditional upon the following conditions being fulfilled:

1. the passing by the Independent Shareholders at the SGM to approve the Open Offer, the Underwriting Agreement and the Whitewash Waiver (together with the transactions contemplated thereunder) by no later than the Posting Date;

2. the Executive having granted, and not having withdrawn or revoked such grant, the Whitewash Waiver, and the fulfillment of all conditions (if any) attached to the Whitewash Waiver;

3. the delivery to the Stock Exchange and registration with the Registrar of Companies in Hong Kong respectively the Prospectus Documents (and all other documents required to be attached thereto) not later than the Posting Date;

4. if necessary, the registration with the Registrar of Companies in Bermuda of the Prospectus (and all other documents required to be attached thereto) on or as soon as reasonably practicable after the publication of the Prospectus;

5. the posting of the Prospectus Documents to the Qualifying Shareholders and the posting of the Overseas Letter and Prospectus to the Excluded Shareholders for information (if any), on the Posting Date;

6. the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment), and not having revoked, listing of, and permission to deal in the Offer Shares either unconditionally or subject to such conditions as the Company may accept, in all cases prior to Thursday, 18 December 2014, being the expected date of commencement of dealings in the Offer Shares (or such other date as may be agreed between the Company and the Underwriter);

7. if necessary, the Bermuda Monetary Authority granting consent to the issue of the Offer Shares under the Open Offer;

8. all requirements and conditions imposed by the Stock Exchange or the SFC or under the Listing Rules, the Takeovers Code or otherwise in connection with the Open Offer and the transactions contemplated thereunder, other than usual and reasonable requirements and conditions in transactions of this type, having been fulfilled or complied with;

9. compliance with and performance of all undertakings and obligations of Huge Top, Mr. Andrew Yao, Mr. Dong and other Directors who are holding the Share Options respectively, under their respective undertakings as set out in the paragraph headed "Irrevocable undertakings" in this letter from the Board; and

10. the Underwriter not terminating the Underwriting Agreement in accordance with the terms set out therein.

None of the above conditions precedent can be waived by the Company or the Underwriter. In the event that the above conditions have not been satisfied on or before the respective dates aforesaid or by 4:00 p.m. on Wednesday, 10 December 2014 (or such other dates as the Underwriter and the Company may agree), all liabilities of the parties to the Underwriting Agreement shall cease and determine and no party shall have any claim against the other party save for any antecedent breach of the Underwriting Agreement and the Open Offer will not proceed. As at the Latest Practicable Date, none of the above conditions of the Open Offer is fulfilled.

The Underwriting Agreement

Date	:	24 September 2014 (after trading hours)
Underwriter	:	Perfect Capital International Corp., an associate of Mr. Andrew Yao and a controlling Shareholder, and whose ordinary course of business does not include underwriting
Number of Offer Shares underwritten by the Underwriter	:	All Offer Shares (other than those irrevocably undertaken to be subscribed by Mr. Andrew Yao), being not less than 209,451,625 Offer Shares (assuming no further issue of new Shares on or before the Record Date) and not more than 218,998,125 Offer Shares (assuming all the outstanding and exercisable Share Options (after taking into account the Option Undertakings) are exercised and no other issue of new Shares on or before the Record Date)
Underwriting commission	:	2.0% of the aggregate Subscription Price of the Underwritten Shares as determined on the Record Date

The Company has approached the Underwriter and several independent financial institutions to explore the possibility to underwrite any Offer Shares not taken up by the Qualifying Shareholders, however the Underwriter is the only one who has expressed its strong confidence in the prospect of the Group's business, and its willingness to support and underwrite the Open Offer. The Company believes that underwriters in general have a much lower risk appetite in the current economic environment and are keen to preserve their capital base. Therefore, the Company decided to appoint the Underwriter to act as the underwriter for the Open Offer.

The 2.0% underwriting commission rate was determined after arm's length negotiations between the Company and the Underwriter with reference to the size of the Open Offer, the commission rates in current Open Offers and/or Rights Issues conducted by other listed companies and the current and expected market conditions. The Board considers the terms of the Underwriting Agreement including the commission rate accord with the market practice and are fair and reasonable so far as the Company and the Shareholders are concerned.

Termination of the Underwriting Agreement

The Underwriter reserves the right to terminate the underwriting arrangements set out in the Underwriting Agreement by notice in writing given by the Underwriter to the Company at any time prior to 4:00 p.m. on Wednesday, 10 December 2014, if:

(a) it has come to the notice of the Underwriter:

(i) that any statement, considered reasonably by the Underwriter to be material, contained in the Prospectus Documents was when the Prospectus Documents were issued, or has become untrue, incorrect or misleading in any material respect; or

(ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the Posting Date, constitute an omission therefrom reasonably considered by the Underwriter to be material; or

(iii) any breach of the warranties contained in the Underwriting Agreement reasonably considered by the Underwriter to be material; or

(iv) any event, act or omission which in the reasonable opinion of the Underwriter give or are likely to give rise to any material liability of the Company; or

(v) any material breach of any material obligations or undertakings of the Company contained in the Underwriting Agreement; or

(vi) any adverse change in the business or in the financial or trading position of any member of the Group which is material in the context of the Open Offer;

(b) in the reasonable opinion of the Underwriter, the success of the Open Offer would be materially and adversely affected by:

(i) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or

(ii) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date hereof) of a political, military, financial, economic, currency or other nature (whether or not sui generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities market which materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially or adversely prejudice the success of the Open Offer or otherwise makes inexpedient or inadvisable to proceed with the Open Offer; or

(c) any change in market conditions (including without limitation suspension or material restriction or trading in securities) occurs which, in the reasonable opinion of the Underwriter, is likely to materially or adversely affect the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or

(d) any change in the circumstances of the Company or any members of the Group which will, in the reasonable opinion of the Underwriter, materially or adversely affect the prospect of the Company.

If prior to 4:00 p.m. on Wednesday, 10 December 2014 any such notice referred to above is given by the Underwriter, the obligations of all parties under the Underwriting Agreement shall cease and determine and no party to the Underwriting Agreement shall have any claim against any other party in respect of any matter or thing arising out of or in connection with the Underwriting Agreement provided however that the Company shall remain liable to pay the costs, charges and expenses howsoever of or incidental to the Open Offer.

If the Underwriting Agreement is terminated by the Underwriter prior to 4:00 p.m. on Wednesday, 10 December 2014 or does not become unconditional, the Open Offer will not proceed. A further announcement will be made by the Company if the Underwriting Agreement is terminated by the Underwriter.

Irrevocable Undertakings

Pursuant to the respective irrevocable undertakings provided by Huge Top and Mr. Dong, it/he has irrevocably undertaken to the Company and the Underwriter, that it/he would not, within the period commencing from the date of the Underwriting Agreement and ending on the Settlement Date, transfer or otherwise dispose of, or create any right in respect of, any Shares held by it/him.

Pursuant to the irrevocable undertaking provided by Mr. Andrew Yao, he has irrevocably undertaken to the Company and the Underwriter, that (i) he would not and would procure Ms. Miriam Yao not to, within the period commencing from the date of the Underwriting Agreement and ending on the Settlement Date, transfer or otherwise dispose of, or create any right in respect of, any Shares held by him or Ms. Miriam Yao; (ii) he would not, within the period commencing from the date of the Underwriting Agreement and ending on the Settlement Date, transfer or otherwise dispose of, or create any right in respect of, any shares or interests in any companies controlled by him which beneficially own the Shares save for the creation of charge over the shares in Huge Top held by him for financing the underwriting obligation of the Underwriter under the Underwriting Agreement; (iii) he would subscribe for all his entitlement under the Open Offer; and (iv) he would not exercise any Shares Options carrying rights to subscribe for a total of 1,500,000 new Shares granted to him within the period commencing from the date of the Underwriting Agreement and ending on the Settlement Date.

Except for those Offer Shares which Mr. Andrew Yao has irrevocably undertaken to take up, the Company has not received any information or irrevocable undertaking from any Shareholders of their intention in relation to the Offer Shares to be provisionally allotted to them under the Open Offer.

Pursuant to the irrevocable Option Undertakings provided by Mr. Frank Muñoz (being the executive Director), Mr. Dong (being the non-executive Director), Mr. Tam King Ching Kenny, Mr. Xu Lin Bao and Mr. Tse Lung Wa Teddy (being the independent non-executive Directors) respectively, each of them has respectively and irrevocably undertaken to the Company and the Underwriter, that they would not exercise any Share Options carrying rights to subscribe for a total of 4,200,000 new Shares granted to them within the period commencing from the date of the Underwriting Agreement and ending on the Settlement Date.

WARNING OF THE RISKS OF DEALING IN SHARES

The Open Offer is conditional, inter alia, upon (i) the fulfilment of the conditions set out under the paragraph headed "Conditions of the Open Offer" in this letter from the Board; and (ii) the Underwriting Agreement not being terminated in accordance with its terms as set out in the section headed "Termination of the Underwriting Agreement" in this circular. Accordingly, the Open Offer may or may not proceed. Any Shareholders or other persons contemplating selling or purchasing Shares from the Latest Practicable Date up to the date when the conditions of the Open Offer are fulfilled will bear the risk that the Open Offer may not become unconditional and may not proceed. Shareholders and the public are reminded to exercise caution when dealing in the securities of the Company.

ADJUSTMENT IN RELATION TO THE SHARE OPTIONS

Adjustment to the exercise price and number of the Shares to be subscribed under the Share Options may be required under the relevant terms of the instrument constituting the share option schemes of the Company. Further announcement will be made by the Company in due course. Such adjustment, if any, will take place upon completion of the Open Offer and will not have any impact on the Open Offer and the number of Offer Shares to be issued and allotted under the Open Offer.

SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below is the shareholding structure of the Company assuming that there is no change in the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately after completion of the Open Offer.

Scenario 1 — Assuming no further issue of new Shares on or before the Record Date:

Shareholders	As at the Latest Practicable Date		Immediately after completion of the Open Offer assuming all Qualifying Shareholders take up their entitlements under the Open Offer		Immediately after completion of the Open Offer assuming no other Qualifying Shareholders takes up any of their entitlements under the Open Offer (save for Mr. Andrew Yao who undertakes to take up his entitlement under the Open Offer)	
	Number of Shares	*Approximate %*	*Number of Shares*	*Approximate %*	*Number of Shares*	*Approximate %*
The Underwriter and persons acting in concert with it						
The Underwriter	—	—	—	—	209,451,625	33.12
Huge Top	173,424,000	41.15	260,136,000	41.15	173,424,000	27.43
Mr. Andrew Yao	2,612,000	0.62	3,918,000	0.62	3,918,000	0.62
Ms. Miriam Yao	2,000,000	0.47	3,000,000	0.47	2,000,000	0.32
Mr. Dong	142,000	0.03	213,000	0.03	142,000	0.02
Sub-total	**178,178,000**	**42.27**	**267,267,000**	**42.27**	**388,935,625**	**61.51**
Public Shareholders	243,337,251	57.73	365,005,876	57.73	243,337,251	38.49
Total	**421,515,251**	**100.00**	**632,272,876**	**100.00**	**632,272,876**	**100.00**

Scenario 2 — Assuming all the outstanding and exercisable Share Options (after taking into account the Option Undertakings) are exercised and no other issue of new Shares on or before the Record Date:

Shareholders	As at the Latest Practicable Date		Assuming all outstanding and exercisable Share Options (after taking into account the Option Undertakings) are exercised before the Record Date		Immediately after completion of the Open Offer assuming all Qualifying Shareholders take up their entitlements under the Open Offer		Immediately after completion of the Open Offer assuming no other Qualifying Shareholders takes up any of their entitlements under the Open Offer (save for Mr. Andrew Yao who undertakes to take up his entitlement under the Open Offer)	
	Number of Shares	*Approximate %*	*Number of Shares*	*Approximate %*	*Number of Shares*	*Approximate %*	*Number of Shares*	*Approximate %*
The Underwriter and persons acting in concert with it								
The Underwriter	—	—	—	—	—	—	218,998,125	33.14
Huge Top	173,424,000	41.15	173,424,000	39.37	260,136,000	39.37	173,424,000	26.24
Mr. Andrew Yao	2,612,000	0.62	2,612,000	0.59	3,918,000	0.59	3,918,000	0.59
Ms. Miriam Yao	2,000,000	0.47	2,000,000	0.45	3,000,000	0.45	2,000,000	0.30
Mr. Dong	142,000	0.03	142,000	0.03	213,000	0.03	142,000	0.02
Sub-total	**178,178,000**	**42.27**	**178,178,000**	**40.44**	**267,267,000**	**40.44**	**398,482,125**	**60.29**
Other non-public Shareholders								
Mr. Frank Muñoz	—	—	—	—	—	—	—	—
Mr. Tam King Ching Kenny	—	—	—	—	—	—	—	—
Mr. Xu Lin Bao	—	—	—	—	—	—	—	—
Mr. Tse Lung Wa Teddy	—	—	—	—	—	—	—	—
Sub-total	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Other Share Option holders	—	—	19,093,000	4.33	28,639,500	4.33	19,093,000	2.89
Public Shareholders	243,337,251	57.73	243,337,251	55.23	365,005,876	55.23	243,337,251	36.82
Total	421,515,251	100.00	440,608,251	100.00	660,912,376	100.00	660,912,376	100.00

Note: The entire issued share capital of the Underwriter is legally and beneficially owned by Mr. Andrew Yao. Mr. Andrew Yao and all of his associates, including Huge Top and Ms. Miriam Yao, are persons acting in concert with the Underwriter. Mr. Dong is also deemed to be a person acting in concert with the Underwriter. Save for Mr. Andrew Yao and Mr. Dong, no Director is interested in any Shares.

REASONS FOR THE OPEN OFFER AND USE OF PROCEEDS

As set out in the annual report of the Company for the financial year ended 31 March 2014, the operating environment for the Group's core construction steel business remained robust during the year which was principally driven by a number of large infrastructure development projects undertaken and funded by the Hong Kong government. The Company considers that this trend will continue in the near future based on the 2013 Budget Summary by the Financial Secretary of Hong Kong and 2014 Policy Address by the Chief Executive of Hong Kong respectively. In 2013 Budget Summary, it is highlighted that Hong Kong government would develop about 75,000 units of new Public Rental Housing flats for the next 5 years from the year 2012/13 and about 17,000 units of Home Ownership Scheme flats for the next 4 years from the year 2016/17. It is further mentioned in the 2014 Policy Address that the Hong Kong government will make further efforts to optimise the public transport system as 5 new railway lines will be completed in succession in the next 6 years. A blueprint setting out new railway development to be implemented after 2020 was then issued in September 2014. The construction industry is expected to expand even further in the coming years with the continuation of large-scale infrastructure and commercial projects, as well as the Hong Kong government's new ambitious measures to substantially increase the land supply for private and public residential flats. As one of the top construction steel distributors in the region and in order to respond to such ample opportunities quickly, the Board considers that it is very important to have funds available immediately when such opportunities arisen in the market. In order to capture such opportunities responsively, the Group plans to further diversify its products and expand its reinforcement bar downstream processing, including the establishment of a new facility for reinforcement bar cut-and-bend and assembly services in Hong Kong. For this purpose, the Government of Hong Kong has accepted the Group's tender for the tenancy of a premises in Tsing Yi, New Territories (the "Tenancy") as set out in the announcement of the Company dated 12 August 2014. The Company is still negotiating the terms of the Tenancy with the Hong Kong government which is expected to be finalised and executed with the Government of Hong Kong in November 2014. The Company will issue an announcement if there is any updates to the Tenancy. The Board considers that the Group will be benefited from the Open Offer to have funds to establish such new facility. Nevertheless, the Group will proceed with the establishment of the cut-and-bend plant even if the Open Offer is not approved by the Independent Shareholders at the SGM. If the Open Offer is not approved by the Independent Shareholders and not to proceed, the Board will consider financing the establishment of cut-and-bend plant by bank borrowings and internal resources. The Group also intends to expand its geographic presence in China from that of a local player in the eastern part of China to nationwide for its surface critical coil steel distribution and trading business, engineering plastics business and sanitary ware (building and design solutions) business.

The estimated net proceeds of the Open Offer will be approximately HK$99.8 million to approximately HK$104.5 million after deduction of all estimated expenses. The Company intends to apply the net proceeds from the Open Offer as to approximately 70% for (i) further product diversification and (ii) downstream processing of the Group's reinforcement bar business unit to serve Hong Kong construction industry, including the construction of the new cut-and-bend factory and warehouse and the acquisition of processing machinery and equipment for the above mentioned new facility in Tsing Yi, New Territories; and the remaining balance of approximately 30% for general working capital purpose, including the expansion of its geographic presence in China as mentioned in the above paragraph and repayment of part of its short-term bank borrowings to reduce its indebtedness.

Before resolving to the Open Offer, the Board has consulted certain financial institutions and also considered other fund raising alternatives, including but not limited to bank borrowings, share placement and rights issue. In view that bank borrowings would result in additional interest burden and higher gearing ratio of the Group and share placement may necessarily dilute the shareholding in the Company of the existing Shareholders, the Board considers those fund raising methods to be not preferable. On the other hand, rights issue as compared with open offer would offer an opportunity of trading nil-paid rights to the Shareholders. Nevertheless, having considered and balanced against the extra administrative work and cost which will be involved for the trading arrangements in relation to the nil-paid rights, the Board is of the opinion that raising funds by way of the Open Offer is more cost effective and efficient. The Board also considers that it is prudent to finance the Group's long-term growth by long-term financing, preferably in the form of equity which will not increase the Group's finance costs. The Open Offer will give the Qualifying Shareholders an equal opportunity to maintain their proportionate interests in the Company and to continue to participate in the future development of the Group. Accordingly, the Board considers that fund raising through the Open Offer is in the interests of the Company and the Shareholders as a whole.

INFORMATION ON THE GROUP

The Group is principally engaged in stockholding and distribution of construction materials such as steel products, sanitary wares, kitchen cabinets, home furniture and engineering plastics, installation work of kitchen cabinets and property investment.

INFORMATION ON THE UNDERWRITER

The Underwriter is a company incorporated in the British Virgin Islands with limited liability and is solely and beneficially owned by Mr. Andrew Yao. The Underwriter is an investment holding company and directly holds approximately 42.86% equity interests in Huge Top, which in turn directly holds approximately 41.15% equity interests in the Company. Mr. Andrew Yao is the sole director of the Underwriter.

INTENTION OF THE UNDERWRITER

It is the intention of the Underwriter that the Group will continue its current business, and the Underwriter has no intention to make any major changes to the business (including redeployment of fixed assets of the Group) or continued employment of the employees of the Group. The Underwriter also has no intention to inject any new business/ assets to the Group or change the Company's board composition.

Given that the Underwriter has no intention to change any business and employment of the Group, the Directors are of the view that there will be no distortion or interruption to the Group's operations which will continue to be operated upon completion of the Open Offer as before.

The Underwriter has strong confidence in the future prospect of the Group's business and after considering the terms of the Open Offer and its use of proceeds, considered that, in terms of long term commercial justification, the Open Offer is favourable to the Group as the Group will be able to obtain additional capital resources without increasing the Group's finance costs for its further development and expansion and enlarge its capital base and the Underwriter, as a controlling Shareholder, will also be benefited from the growth of the Group in the future.

FUND RAISING EXERCISE OF THE COMPANY

The Company issued a total number of 4,958,000 new Shares to certain employees of the Group and others upon exercise of the Share Options held by them between 18 September 2013 to 5 September 2014 and raised an aggregate net proceeds of approximately HK$2.6 million for use as working capital by the Group. Save as disclosed in this paragraph, the Company had not conducted any fund raising exercise in the past 12 months immediately preceding the Latest Practicable Date.

IMPLICATION UNDER THE TAKEOVERS CODE AND WHITEWASH WAIVER

As at the Latest Practicable Date, the Underwriter, Huge Top, Mr. Andrew Yao, Ms. Miriam Yao, Mr. Dong and persons acting in concert with any of them, in aggregate, hold 178,178,000 Shares, representing approximately 42.27% of the existing issued share capital of the Company. In the event that the Underwriter is called upon to subscribe for the Underwritten Shares in full pursuant to its obligations under the Underwriting Agreement, the interests of the Underwriter and persons acting in concert with it will increase by more than 2% to approximately 61.51% (assuming no outstanding and exercisable Share Options (after taking into account the Option Undertakings) are exercised and no other Shares are allotted or issued on or before the Record Date). Accordingly, in the absence of the Whitewash Waiver, the underwriting by the Underwriter of the Open Offer will trigger an obligation to make a mandatory general offer under Rule 26 of the Takeovers Code for all the securities of the Company not already owned or agreed to be acquired by the Underwriter and persons acting in concert with it.

The Underwriter has made an application for the Whitewash Waiver to the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. Pursuant to the Takeovers Code, the Whitewash Waiver will be conditional on, among other things, the approval of the Independent Shareholders at the SGM by way of poll. The Underwriter and persons acting in concert with it and their respective associates and any Shareholders who are involved or interested in the transactions regarding the Open Offer (save for any assured entitlement to the Open Offer as a Qualifying Shareholder), the Underwriting Agreement and/or Whitewash Waiver will not be entitled to vote at the SGM.

The Executive has agreed, subject to, among other things, the approval of the Independent Shareholders at the SGM by way of poll, to grant the Whitewash Waiver. The granting by the Executive of the Whitewash Waiver and the approval of the Independent Shareholders at the SGM in accordance with the Takeovers Code are part of the conditions precedent to completion of the Open Offer and cannot be waived. If the Whitewash Waiver is not granted by the Executive or if granted, is not approved by the Independent Shareholders, the Open Offer will not become unconditional and will not proceed.

In the event that the Whitewash Waiver is granted by the Executive, and the voting rights of the Underwriter together with the persons acting in concert with it exceed 50% of the voting rights of the Company upon completion of the Open Offer, the Underwriter and persons acting in concert with it may increase their aggregate shareholding in the Company subsequent to the completion of the Open Offer without triggering any obligation under Rule 26 of the Takeovers Code to make a general offer.

As at the Latest Practicable Date, save for the Share Options, the Company does not have any outstanding derivatives, options, warrants, convertible rights or other similar rights which are convertible or exchangeable into Shares.

The Underwriter has confirmed that none of the Underwriter and persons acting in concert with it has acquired any voting rights in the Company nor dealt in any securities of the Company and there have been no disqualifying transactions as stipulated under paragraph 3 of Schedule VI to the Takeovers Code, in the six-month period preceding the date of the Announcement and up to and including the Latest Practicable Date.

The Underwriter has confirmed that as at the Latest Practicable Date, other than (i) 173,424,000 Shares, representing approximately 41.15% of the existing issued share capital of the Company, held by Huge Top; (ii) 2,612,000 Shares, representing approximately 0.62% of the existing issued share capital of the Company, held by Mr. Andrew Yao; (iii) 2,000,000 Shares, representing approximately 0.47% of the existing issued share capital of the Company, held by Ms. Miriam Yao; (iv) 142,000 Shares, representing approximately 0.03% of the existing issued share capital of the Company, held by Mr. Dong; and (v) Share Options carrying subscription rights to subscribe for 1,500,000 new Shares and 200,000 new Shares held by Mr. Andrew Yao and Mr. Dong respectively,

(i) the Underwriter and persons acting in concert with it did not hold any Shares, convertible securities, warrants or options of the Company or any outstanding derivative in respect of relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company;

(ii) the Underwriter and persons acting in concert with it did not receive any irrevocable commitment or arrangements to vote in favour of or against the resolutions in respects of the Open Offer, the Underwriting Agreement and the Whitewash Waiver;

(iii) save for the Underwriting Agreement and the irrevocable undertakings of Huge Top, Mr. Andrew Yao, Mr. Dong and other Directors who are holding the Share Options respectively, under their respective undertakings set out in the paragraph headed "Irrevocable undertakings" in this letter from the Board, there is no arrangement referred to in Note 8 to Rule 22 of the Takeovers Code (whether by way of option, indemnity or otherwise) in relation to the Shares or shares of the Underwriter and which might be material to the Open Offer, the Underwriting Agreement and the Whitewash Waiver;

(iv) other than those set out in the paragraph headed "Conditions of the Open Offer" in this letter from the Board, there is no agreements or arrangements to which any of the Underwriter or any persons acting in concert with it is a party which related to the circumstances in which any of them may or may not invoke or seek to invoke a pre-conditions or a condition to the Open Offer, the Underwriting Agreement and/or the Whitewash Waiver; and

(v) there is no borrowing or lending of any relevant securities (as defined in Note 4 of Rule 22 of the Takeovers Code) of the Company by the Underwriter and the persons acting in concert with it.

IMPLICATION UNDER THE LISTING RULES

The Underwriter is a company solely and beneficially owned by Mr. Andrew Yao and is holding approximately 42.86% equity interests in Huge Top as at the Latest Practicable Date and is, thus, an associate of Mr. Andrew Yao and a substantial Shareholder under the Listing Rules. As no excess application for the Offer Shares is available under the Open Offer and the Open Offer is underwritten by an associate of Mr.

Andrew Yao and a substantial Shareholder, special approval shall be obtained from the Independent Shareholders in respect of the absence of such excess application arrangement pursuant to Rule 7.26A(2) of the Listing Rules. The Underwriter and persons acting in concert with it and their respective associates and any Shareholders who are involved in or interested in the Open Offer (saved for any assured entitlement to the Open Offer as a Qualifying Shareholder), the Underwriting Agreement and/or the Whitewash Waiver will abstain from voting at the SGM.

As the Underwriter is an associate of Mr. Andrew Yao and a substantial Shareholder and is, thus, a connected person of the Company, the entering into of the Underwriting Agreement by the Company constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. As the underwriting commission to be payable to the Underwriter of approximately HK$2.19 million (based on 218,998,125 Offer Shares, being the maximum number of Offer Shares underwritten by the Underwriter under the Open Offer) is on normal commercial terms and all applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) are less than 5%, the payment of the underwriting commission by the Company to the Underwriter is therefore exempt from reporting, announcement and independent shareholders' approval requirements under Rule 14A.76(1) of the Listing Rules.

SGM

The SGM will be held at 10:30 a.m. on Wednesday, 12 November 2014 at Rooms 4903-7, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, at which ordinary resolution(s) will be proposed to consider and, if thought fit, passing the resolution(s) to approve the Open Offer, the Underwriting Agreement, the Whitewash Waiver and the respective transactions contemplated thereunder. The resolution(s) to be put to vote at the SGM will be taken by way of poll in accordance with the Listing Rules and the Takeovers Code.

The Underwriter and persons acting in concert with it and their respective associates and any Shareholders who are involved in or interested in the Open Offer (save for any assured entitlement to the Open Offer as a Qualifying Shareholder), the Underwriting Agreement and/or the Whitewash Waiver will abstain from voting at the SGM.

The notice of the SGM is set out on pages 192 to 194 in this circular and a form of proxy for use at the SGM is enclosed. If you are unable to attend the SGM in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon together with any power of attorney or other authority (if any) under which it is signed or a certified copy of such power of attorney to the office of the Registrar at 17M Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM should you so wish.

POLL PROCEDURE

The votes to be taken at the SGM will be taken by a poll, the results of which will be announced after the SGM.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 33 to 34 in this circular which contains its recommendation to the Independent Shareholders as to voting at the SGM in relation to the Open Offer, the Underwriting Agreement and Whitewash Waiver.

Your attention is also drawn to the letter from Vinco Capital set out on pages 35 to 67 in this circular which contains its advice to the Independent Board Committee and the Independent Shareholders as regards to the Open Offer, the Underwriting Agreement and the Whitewash Waiver and the principal factors and reasons considered by it in arriving thereat.

The Directors consider that the Open Offer, the Underwriting Agreement and Whitewash Waiver are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the SGM to approve the Open Offer, the Underwriting Agreement, the Whitewash Waiver and the respective transactions contemplated thereunder. You are advised to read the letter from the Independent Board Committee and the letter from Vinco Capital mentioned above before deciding how to vote on the resolution(s) to be proposed at the SGM.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board of
Van Shung Chong Holdings Limited
Frank Muñoz
Executive Director and Chief Executive Officer

VSC万顺昌

VAN SHUNG CHONG HOLDINGS LIMITED

Website: http://www.vschk.com

(Incorporated in Bermuda with limited liability)

(Stock Code: 1001)

23 October 2014

To the Independent Shareholders

Dear Sir or Madam,

(1) PROPOSED OPEN OFFER ON THE BASIS OF ONE OFFER SHARE FOR EVERY TWO SHARES HELD ON THE RECORD DATE; AND (2) APPLICATION FOR WHITEWASH WAIVER

We refer to the circular of the Company dated 23 October 2014 (the "Circular") of which this letter forms part. Capitalised terms defined in the Circular have the same meanings when used herein unless the context otherwise requires.

We have been appointed by the Board as members of the Independent Board Committee to advise the Independent Shareholders in respect of the fairness and reasonableness of the Open Offer, the Underwriting Agreement and the Whitewash Waiver and to recommend whether or not the Independent Shareholders should vote on the resolution(s) to be proposed at the SGM to approve the Open Offer, the Underwriting Agreement, the Whitewash Waiver and the respective transactions contemplated thereunder. Vinco Capital has been appointed as the independent financial adviser of the Company to advise the Independent Board Committee and the Independent Shareholders in this regard.

We wish to draw your attention to the "Letter from the Board" set out in the Circular and the "Letter from Vinco Capital" set out in the Circular to the Independent Board Committee and the Independent Shareholders which contains its advice to us in relation to the Open Offer, the Underwriting Agreement and Whitewash Waiver.

Having taken into account the principal factors and reasons considered by and the opinion of Vinco Capital as set out in the "Letter from Vinco Capital" in the Circular, we are of the view that the Open Offer is a fair and reasonable method for the Company to strengthen the capital base and obtain long-term capital, and are of the view that the Whitewash Waiver, which is to facilitate the implementation of the Open Offer, and the terms of the Open Offer and the Underwriting Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole. We therefore recommend the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the SGM to approve the Open Offer, the Underwriting Agreement, the Whitewash Waiver and the respective transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
The Independent Board Committee of
Van Shung Chong Holdings Limited

Tam King Ching Kenny	**Xu Lin Bao**	**Tse Lung Wa Teddy**	**Yeung Wing Sun Mike**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*	*Independent non-executive Director*

The following is the text of a letter of advice from Vinco Capital to the Independent Board Committee and the Independent Shareholders in relation to the Open Offer, the Underwriting Agreement and the Whitewash Waiver (together with the respective transactions contemplated thereunder), which has been prepared for the purpose of incorporation in this circular:

VINCO 城高

Grand Vinco Capital Limited
Units 4909-4910, 49/F., The Center
99 Queen's Road Central, Hong Kong

23 October 2014

To the Independent Board Committee and the Independent Shareholders of
Van Shung Chong Holdings Limited

Dear Sirs,

(1) PROPOSED OPEN OFFER ON THE BASIS OF ONE OFFER SHARE FOR EVERY TWO SHARES HELD ON THE RECORD DATE; AND (2) APPLICATION FOR WHITEWASH WAIVER

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Open Offer, the Underwriting Agreement and the Whitewash Waiver (together with the respective transactions contemplated thereunder), details of which are set out in the letter from the board (the "**Letter from the Board**") contained in the circular of the Company dated 23 October 2014 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings ascribed to them in the Circular unless the context otherwise requires.

On 24 September 2014, the Company announced, among other things, the Open Offer, the Underwriting Agreement and the Whitewash Waiver (together with the respective transactions contemplated thereunder). The Company proposed to raise approximately HK$105.40 million to approximately HK$110.20 million, before expenses, by issuing not less than 210,757,625 Offer Shares and not more than 220,304,125 Offer

Shares to the Qualifying Shareholders at the Subscription Price of HK$0.50 per Offer Share under the Open Offer on the basis of one (1) Offer Share for every two (2) Shares held on the Record Date. The Open Offer is only available to the Qualifying Shareholders. There is no arrangement for application of the Offer Shares by the Qualifying Shareholders in excess of their proportionate assured allotments under the Open Offer. The Open Offer is fully underwritten by the Underwriter. As at the Latest Practicable Date, save for the Share Options, the Company has no outstanding convertible securities, options or warrants in issue which confer any right to subscribe for, convert or exchange into Shares.

Pursuant to the respective irrevocable undertakings provide by Huge Top and Mr. Dong, it/he has irrevocably undertaken to the Company and the Underwriter, that it/he would not, within the period commencing from the date of the Underwriting Agreement and ending on the Settlement Date, transfer or otherwise dispose of, or create any right in respect of, any Shares held by it/him. Pursuant to the irrevocable undertaking provided by Mr. Andrew Yao, he has irrevocably undertaken to the Company and the Underwriter, that (i) he would not and would procure Ms. Miriam Yao not to, within the period commencing from the date of the Underwriting Agreement and ending on the Settlement Date, transfer or otherwise dispose of, or create any right in respect of, any Shares held by him or Ms. Miriam Yao; (ii) he would not, within the period commencing from the date of the Underwriting Agreement and ending on the Settlement Date, transfer or otherwise dispose of, or create any right in respect of, any shares or interests in any companies controlled by him which beneficially own the Shares save for the creation of charge over the shares in Huge Top held by him for financing the underwriting obligation of the Underwriter under the Underwriting Agreement; (iii) he would subscribe for all his entitlement under the Open Offer; and (iv) he would not exercise any Shares Options carrying rights to subscribe for a total of 1,500,000 new Shares granted to him within the period commencing from the date of the Underwriting Agreement and ending on the Settlement Date. Except for those Offer Shares which Mr. Andrew Yao has irrevocably undertaken to take up, the Company has not received any information or irrevocable undertaking from any Shareholders of their intention in relation to the Offer Shares to be provisionally allotted to them under the Open Offer. Pursuant to the irrevocable Option Undertakings provided by Mr. Frank Muñoz (being the executive Director), Mr. Dong (being the non-executive Director), Mr. Tam King Ching Kenny, Mr. Xu Lin Bao and Mr. Tse Lung Wa Teddy (being the independent non-executive Directors) respectively, each of them has respectively and irrevocably undertaken to the Company and the Underwriter, that they would not exercise any Shares Options carrying rights to subscribe for a total of 4,200,000 new Shares granted to them within the period commencing from the date of the Underwriting Agreement and ending on the Settlement Date.

As at the Latest Practicable Date, the Underwriter, Huge Top, Mr. Andrew Yao, Ms. Miriam Yao, Mr. Dong and persons acting in concert with any of them, in aggregate, hold 178,178,000 Shares, representing approximately 42.27% of the existing issued share capital of the Company. In the event that the Underwriter is called upon to subscribe for the Underwritten Shares in full pursuant to its obligations under the Underwriting Agreement, the interests of the Underwriter and persons acting in concert with it will increase by more than 2% to approximately 61.51% (assuming no outstanding and exercisable Share Options (after taking into account the Option Undertakings) are exercised and no other Shares are allotted or issued on or before the Record Date). Accordingly, in the absence of the Whitewash Waiver, the underwriting by the Underwriter of the Open Offer will trigger an obligation to make a mandatory general offer under Rule 26 of the Takeovers Code for all the securities of the Company not already owned or agreed to be acquired by the Underwriter and persons acting in concert with it. The Underwriter has made an application for the Whitewash Waiver to the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. Pursuant to the Takeovers Code, the Whitewash Waiver will be conditional on, among other things, the approval of the Independent Shareholders at the SGM by way of poll. The Executive has agreed, subject to, among other things, the approval of the Independent Shareholders at the SGM by way of poll, to grant the Whitewash Waiver. If the Whitewash Waiver is not granted by the Executive or if granted, is not approved by the Independent Shareholders, the Open Offer will not become unconditional and will not proceed.

The Underwriter is a company solely and beneficially owned by Mr. Andrew Yao and is holding approximately 42.86% equity interests in Huge Top as at the Latest Practicable Date and is, thus, an associate of Mr. Andrew Yao and a substantial Shareholder under the Listing Rules. As no excess application for the Offer Shares is available under the Open Offer and the Open Offer is underwritten by an associate of Mr. Andrew Yao and a substantial Shareholder, special approval shall be obtained from the Independent Shareholders in respect of the absence of such excess application arrangement pursuant to Rule 7.26A(2) of the Listing Rules. The Underwriter and persons acting in concert with it and their respective associates and any Shareholders who are involved in or interested in the Open Offer (save for any assured entitlement to the Open Offer as a Qualifying Shareholder), the Underwriting Agreement and/or the Whitewash Waiver will abstain from voting at the SGM. As the Underwriter is an associate of Mr. Andrew Yao and a substantial Shareholder and is, thus, a connected person of the Company, the entering into of the Underwriting Agreement by the Company and the Underwriter constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. As the underwriting commission to be payable to the Underwriter of approximately HK$2.19 million (based on 218,998,125 Offer Shares, being the maximum number of Offer Shares underwritten by the Underwriter under the Open Offer) is on normal commercial terms and all applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) are less than 5%, the payment of the underwriting commission by the Company to the Underwriter is therefore exempt from reporting, announcement and independent shareholders' approval requirements under Rule 14A.76(1) of the Listing Rules.

The Independent Board Committee, comprising all the non-executive Directors, namely Mr. Tam King Ching Kenny, Mr. Xu Lin Bao, Mr. Tse Lung Wa Teddy and Mr. Yeung Wing Sun Mike (except for Mr. Dong who is a person acting in concert with the Underwriter, holding approximately 15.49% equity interests in Huge Top), has been established by the Company to advise the Independent Shareholders as to (i) whether the terms of the Open Offer, the Underwriting Agreement and the Whitewash Waiver (together with the respective transactions contemplated thereunder) are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (ii) how the Independent Shareholders should vote in respect of the resolution(s) relating to the Open Offer, the Underwriting Agreement and the Whitewash Waiver (together with the respective transactions contemplated thereunder) at the SGM.

We have been appointed, and approved by the Independent Board Committee, as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Open Offer, the Underwriting Agreement and the Whitewash Waiver (together with the respective transactions contemplated thereunder). In our capacity as the independent financial adviser to the Independent Board Committee and the Independent Shareholders for the purposes of the Takeovers Code and the Listing Rules, our role is to give an independent opinion as to (i) whether the terms of the Open Offer, the Underwriting Agreement and the Whitewash Waiver (together with the respective transactions contemplated thereunder) are fair and reasonable so far as the Independent Shareholders are concerned, and whether they are in the interests of the Company and the Shareholders as a whole; and (ii) how the Independent Shareholders should vote in respect of the relevant resolution(s) relating to the Open Offer, the Underwriting Agreement and the Whitewash Waiver (together with the respective transactions contemplated thereunder) to be proposed at the SGM.

BASIS OF OUR OPINION AND RECOMMENDATION

In forming our opinion and recommendation, we have relied on the information, facts and representations contained or referred to in the Circular and the information, facts and representations provided by, and the opinions expressed by the Directors, management of the Company and its subsidiaries. We have assumed that all information, facts, opinions and representations made or referred to in the Circular were true, accurate and complete at the time they were made and continued to be true, accurate and complete up to the Latest Practicable Date. We have also assumed that all expectations and intentions of the

Directors, management of the Company and its subsidiaries, will be met or carried out as the case may be. We have no reason to doubt the truth, accuracy and completeness of the information, facts, opinions and representations provided to us by the Directors, management of the Company and its subsidiaries. The Directors have confirmed to us that no material facts have been omitted from the information supplied and opinions expressed. We have no reason to doubt that any relevant material facts have been withheld or omitted from the information provided and referred to in the Circular or the reasonableness of the opinions and representations provided to us by the Directors, management of the Company and its subsidiaries.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

We have relied on such information and opinions and have not, however, conducted any independent verification of the information provided, nor have we carried out any independent investigation into the business, financial conditions and affairs of the Group or its future prospect.

In formulating our opinion, we have not considered the taxation implications on Independent Shareholders in relation to the subscription for, holding or disposal of the Offer Shares or otherwise, since these are particular to their individual circumstances. It is emphasised that we will not accept responsibility for any tax effects on, or liabilities of any person resulting from the subscription for, holding or disposal of the Offer Shares or otherwise. In particular, Independent Shareholders subject to overseas taxation or Hong Kong taxation on securities dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

Based on the foregoing, we confirm that we have taken all reasonable steps, which are applicable to the Open Offer, the Underwriting Agreement and the Whitewash Waiver (together with the respective transactions contemplated thereunder), as referred to in Rule 13.08 of the Listing Rules (including the notes thereto).

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the terms of Open Offer, the Underwriting Agreement and the Whitewash Waiver (together with the respective transactions contemplated thereunder) and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation to the Independent Board Committee and the Independent Shareholders in relation to the Open Offer, the Underwriting Agreement and the Whitewash Waiver (together with the respective transactions contemplated thereunder), we have considered the principal factors and reasons as set out below:

1. Background information of the Group

(a) Principal business

The Group is principally engaged in stockholding and distribution of construction materials such as steel products, sanitary wares, kitchen cabinets, home furniture and engineering plastics, installation work of kitchen cabinets and property investment.

(b) Historical financial information

Set out below is a summary of the audited consolidated financial results of the Group for the three financial years ended 31 March 2014 as extracted from the annual reports of the Company for the financial year ended 31 March 2014 (the "**Annual Report 2013/14**") and 31 March 2013 (the "**Annual Report 2012/13**") respectively. Please refer to "Financial information of the Group" set out in Appendix I to the Circular for details.

Consolidated income statement and statement of comprehensive income	**Year ended 31 March**		
	2012	**2013**	**2014**
	HK$'000	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)
Revenue			
— Steel distribution	3,610,433	2,765,346	2,929,183
— Building & design solutions	440,221	490,524	487,051
— Engineering plastics	381,037	472,170	419,326
— Property investment	390	32,580	13,746
	4,432,081	3,760,620	3,849,306
Gross profit	171,187	355,062	370,043
Profit attributable to the equity holders of the Company	6,283	71,600	103,708

Consolidated statement of financial position	**As at 31 March**		
	2012	**2013**	**2014**
	HK$'000	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)
Net assets	691,723	750,138	781,632

Sources: Annual Report 2013/14 and Annual Report 2012/13

(i) For the financial year ended 31 March 2013

Revenue from steel distribution, building and design solutions, plastic resins and property investment represented approximately 76.10%, 12.65%, 10.89% and 0.36% of the total revenue of the Group respectively for the financial year ended 31 March 2013. Approximately 59.4% and 40.6% of the total revenue were generated from Hong Kong and Mainland China respectively for the financial year ended 31 March 2013.

It was mentioned in the Annual Report 2012/13 that the Group has put forward a mandate that each business must be independently successful and self-funded. Structural and organisational changes have been made to assure that each business is able to deliver sustainable and profitable growth. Moreover, the Group is now more selective of business and industries served, especially for mature markets like Hong Kong and Guangdong Province.

During the financial year ended 31 March 2013, the Group recorded total revenue of approximately HK$3,760.62 million, representing a decrease of approximately 15.2% from last financial year. Despite such reduction in revenue, gross profit was approximately HK$355.06 million, up by 107.4% compared to last financial year, and profit attributable to the equity holders of the Company was approximately HK$71.60 million. This improvement in gross profit was mainly due to the Group's reorganisation, which enables it to pursue growth within industries presenting greater challenges but providing higher margins. The Group has also implemented an economic value-added analysis of orders to assure that the businesses it takes delivering an acceptable return. As at 31 March 2013, the Group recorded total assets, total liabilities and net asset value attributable to Shareholders of approximately HK$1,779.17 million, HK$1,029.03 million and HK$750.13 million, respectively.

(ii) For the financial year ended 31 March 2014

As disclosed in the Annual Report 2013/14, for the financial year ended 31 March 2014, the total revenue was approximately HK$3,849.31 million, which represented an increase of approximately 2.4% as compared to the financial year ended 31 March 2013. On 19 June 2014, the Company had announced positive profit alert as the Group is expected to record a significant increase in net profit for the financial year ended 31 March 2014 as compared to the corresponding period in 2013. Such expected increase was mainly due to the improvement of the financial performance of their core steel business as supported by the strong construction market in Hong Kong and a substantial fair value gain on investment property of our wholly-owned office building in Shanghai in current financial year. The profit attributable to Shareholders amounted to approximately HK$103.71 million, representing a notable increase of 44.8% from approximately HK$71.6 million last financial year. As at 31 March 2014, the Group recorded total assets, total liabilities and net asset value attributable to Shareholders of approximately HK$2,652.97 million, HK$1,871.34 million and HK$781.63 million, respectively.

(c) Recent developments

Reference is made to the announcement of the Company dated 12 August 2014 in relation to the successful tender for a site premise of approximately 30,000 m^2 at Tsing Yi, New Territories for a term of six years and nine months. On 11 August 2014, VSC Steel Processing Limited, a wholly-owned subsidiary of the Company, was informed that the Government of the Hong Kong Special Administrative Region has accepted its tender. The aforesaid site premise will be primarily used for processing and assembly of steel for construction use.

(d) Future prospects

The Company mentioned in the Annual Report 2013/14 that uncertainties of the global markets and the PRC slowdown in economic growth will inevitably have an impact across the region. It is anticipated that the global steel market will continue to face imbalances. Steel production in the PRC continues to outpace demand and will put pressure on pricing, as iron ore output is also expected to outpace demand giving steel mills cost relief as steel price falls. On the other hand, the construction industry in Hong Kong has been robust, and is expected to expand even further in the coming years with the continuation of large-scale infrastructure and commercial projects, and the Hong Kong's government's new ambitious measures to substantially increase the land supply for private and public residential flats. For the financial year ended

31 March 2014, the proportion of steel distribution sales in the PRC and Hong Kong were approximately 30.5% and approximately 69.5% respectively, and according to the notes of the segment results in the audited accounts, the total amount of sales for this segment amounted to HK$2,929.2 million.

As growth in the PRC slows down, the competitive environment will continue to intensify. Nevertheless, improved infrastructure is vital to the country's urban-development program, and the central government has initiated the 12th five-year plan, which involves expanding the volume of the PRC's rail, power, and communications networks. Such expansionary development plans will benefit from significant government investment, hence ensuring that state-owned enterprises and their suppliers in industries, such as construction and steel, have secure income streams. Therefore, the Group anticipates vast prospects in the PRC in the foreseeable future, with its economic growth stabilised at around 7.5% and the Chinese policymakers having since taken various steps to open new areas of growth with reforms including continuation of urbanisation and the launch of the country's first free trade zone in Shanghai. At the same time, the Group is proactively exploring and investigating other investment opportunities in order to bring greater value and maximise returns to the Shareholders.

2. Reasons for the Open Offer and use of proceeds

(a) Use of proceeds

The estimated net proceeds of the Open Offer will be approximately HK$99.80 million to approximately HK$104.50 million after deduction of all estimated expenses. The Company intends to apply the net proceeds from the Open Offer as to approximately 70% for further (i) product diversification; and (ii) downstream processing of the Group's reinforcement bar business unit to serve the Hong Kong construction industry, including the construction of the new cut-and-bend factory and warehouse and the acquisition of processing machinery and equipment for the new facility in Tsing Yi, New Territories, and the remaining balance of approximately 30% for general working capital purpose, including the expansion of its geographic presence in China as mentioned in the above paragraph and repayment of part of its short-term bank borrowings to reduce its indebtedness.

As mentioned in the Letter from the Board, according to the Annual Report 2013/14, the operating environment for the Group's core construction steel business remained robust during the year which was principally driven by a number of large infrastructure development projects undertaken and funded by the Hong Kong government. The Company considers that this trend will continue in the near future based on the 2013 Budget Summary by the Financial Secretary of Hong Kong and 2014 Policy Address by the Chief Executive of Hong Kong respectively. In 2013 Budget Summary, it is highlighted that Hong Kong government would develop about 75,000 units of new Public Rental Housing flats for the next 5 years from the year 2012/13 and about 17,000 units of Home Ownership Scheme flats for the next 4 years from the year 2016/17. It is further mentioned in the 2014 Policy Address that the Hong Kong government will make further efforts to optimise the public transport system as 5 new railway lines will be completed in succession in the next 6 years. A blueprint setting out new railway development to be implemented after 2020 was then issued in September 2014. The construction industry is expected to expand even further in the coming years with the continuation of large-scale infrastructure and commercial projects, as well as the Hong Kong government's new ambitious measures to substantially increase the land supply for private and public residential flats. As one of the top construction steel distributors in Hong Kong and in order to response to such ample opportunities quickly, the Board considers that it is very important to have funds available immediately when such opportunities arisen in the market. In order to capture such opportunities responsively, the Group plans to further diversify its products and expand its reinforcement bar downstream processing, including the establishment of a new facility for reinforcement bar cut-and-bend and assembly services in Hong Kong. For this purpose, the Government of Hong Kong has accepted the Group's tender for the tenancy of a premises in Tsing Yi, New Territories as set out in the announcement of the Company dated 12 August 2014. The Company is still negotiating the terms of this aforementioned tenancy with the Hong Kong government which is expected to be finalised and executed with the Hong Kong Government in November 2014. The Board considers that the Group will be benefited from the Open Offer to have funds to establish such new facility. The Group also intends to expand its geographic presence in China from that of a local player in the eastern part of China to nationwide for its surface critical coil steel distribution and trading business, engineering plastics business and sanitary ware (building and design solutions) business.

The Company issued a total number of 4,958,000 new Shares to certain employees of the Group and others upon exercise of the Share Options held by them between 18 September 2013 to 5 September 2014 and raised an aggregate net proceeds of approximately HK$2.60 million for use as working capital by the Group. Save as disclosed in this paragraph, the Company had not conducted any fund raising exercise in the past 12 months immediately preceding the Latest Practicable Date.

(b) Overview on the Hong Kong and the PRC construction markets

In assessing the merits of further developing and expanding of the Group's existing core construction steel businesses, we have performed an industry analysis to evaluate its fundamentals. This includes studying the market statistics and information in relation to the construction industry in Hong Kong and the PRC. According to the "Building and Construction Industry in Hong Kong" issued by the Hong Kong Trade Development Council on 17 June 2014, Hong Kong companies have earned a reputation over the years in rapid construction of quality high-rise apartment blocks and office towers, and the overall gross value of construction work performed by main contractors in Hong Kong has been rising since 2009. As shown in the table below, strong growth of 13.5% in the value of public sector sites have driven up the overall construction activity by 9% to HK$175,937 million in the fiscal year ended 2013.

Gross value of construction works performed by main contractors 2011-2014 Q2

	2011		**2012**		**2013**		**2014 Q1**		**2014 Q2**	
Sector	*HK$ million*	*YoY%*	*HK$ million*	*YoY%*	*HK$ million*	*YoY%*	*HK$ million*	*YoY%*	*HK$ million*	*YoY%*
Private sector sites	35,282	+16.4	49,361	+38.9	49,368	N/A *(Note 2)*	13,395	+14.7	12,303	+1.0
Public sector sites	42,069	+34.8	54,660	+29.9	62,016	+13.5	18,258	+8.5	15,662	+6.6
Locations other than sites *(Note 1)*	51,184	+2.9	57,428	+12.2	64,553	+12.4	17,909	+18.3	20,639	+29.7
Total	128,535	+15.5	161,449	+25.6	175,937	+9.0	49,562	N/A *(Note 2)*	48,604	N/A *(Note 2)*

Notes:

1. Construction work at locations other than sites includes the general trades such as decoration, repair and maintenance, and construction work at minor work locations.

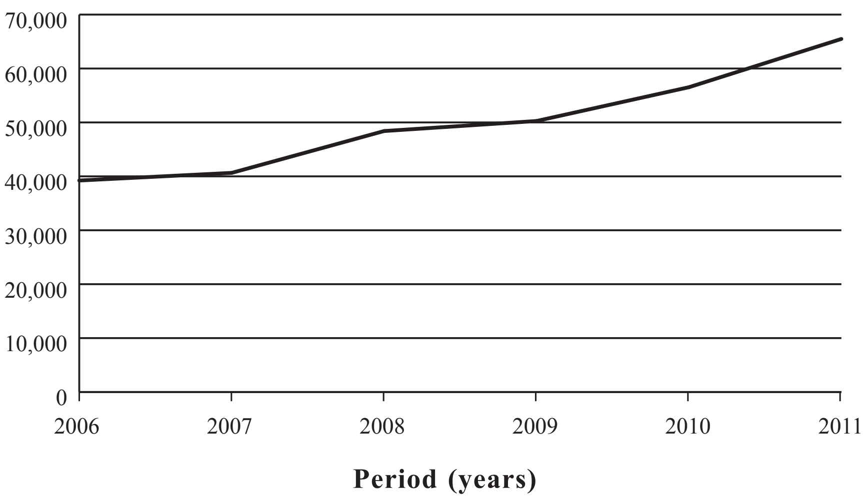
2. N/A represents that the figure was not disclosed.

Source: Report on the Quarterly Survey of Construction Output, Hong Kong Census and Statistics Department

In addition, as disclosed in the Hong Kong's budget for the 2014/15 fiscal year, the Hong Kong government have projected public expenditure on capital works to reach HK$70.8 billion for the fiscal year ending 31 March 2015. In recent years, public spending on infrastructure has been maintained at high levels. For instance, the government has invested in large-scale road and railway projects totalling over HK$90 billion since 2009, including the Hong Kong-Zhuhai-Macau Bridge, Guangzhou-Shenzhen-Hong Kong Express Rail Link, the expansion of railway networks such as the South Island Line and the Shatin to Central Link, as well as highways such as Tuen Mun-Chek Lap Kok Link and Island Eastern Corridor Link. As the infrastructure projects are being rolled out, the demand for construction services in Hong Kong, particularly demand from the public sector, will remain high. As stated in the Annual Report 2013/14, such ample opportunities in the market will bode well for the Group in terms of revenue and market share expansion.

According to the latest publication of "Hong Kong Annual Digest of Statistics (2013 Edition)" issued by the Census and Statistics Department of the Hong Kong Special Administrative Region, from 2006 to 2011, the construction sector contribution to the GDP of Hong Kong, rose on a progressive growth, amounting from approximately HK$39,227 million to approximately HK$65,484 million, as illustrated in the graph below.

Construction contribution to Hong Kong's GDP (HK$ million)

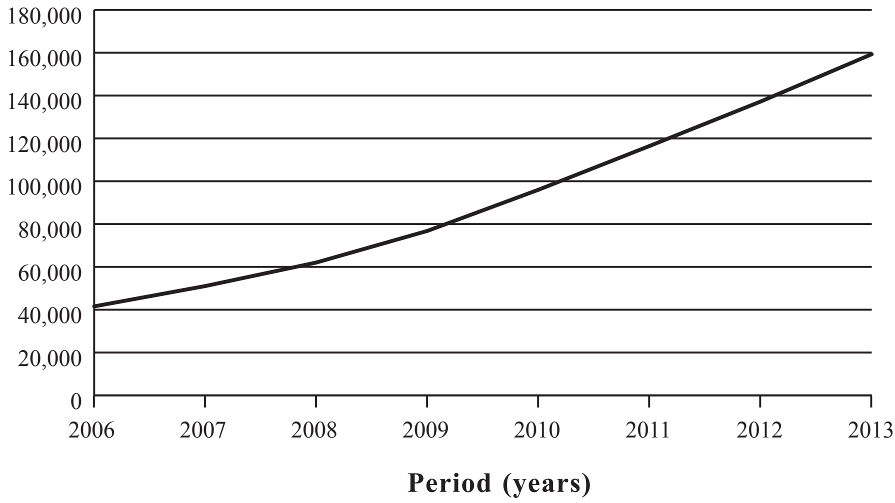


Source: Hong Kong Annual Digest of Statistics (2013 Edition), Census and Statistics Department Hong Kong Special Administrative Region

The "Hong Kong Property Review 2014" issued by the Rating and Valuation Department of the Government of the Hong Kong Special Administrative Region mentioned that Hong Kong's GDP for the year 2013 had grown by approximately 2.9% in real terms, a marked improvement over approximately 1.5% in 2012. It further states that the ultra-low interest rate and improvement in Hong Kong's overall economic performance gave support to the property prices, and projected that the PRC economy, with its resilient domestic demand and helped by the momentum released from further economic reforms, should remain a key pillar to regional economic growth to the benefit of Hong Kong.

As mentioned in "Building and Construction Industry in Hong Kong" article dated 17 June 2014, which was published on the website of Hong Kong Trade Development Council (http://hong-kong-economy-research.hktdc.com) on behalf of Hong Kong Trade Development Council Research by an economist, Ms. Jacqueline Yuen, most of the export markets for Hong Kong's building and construction services are mainly in the PRC, and its rapid urbanisation has driven up development in the PRC. As set out in the Annual Report 2013/14, the PRC's drive for urbanisation and growing middle and upper class will help the Group drive its top line strategy while allowing the Group to remain in the high-end segment of the market. According to the aforementioned Hong Kong Trade Development Council's publication, such rapid urbanisation has driven up development in the PRC. To expand domestic consumption, the PRC's urbanisation plan for 2014-20 aims to increase the proportion of urban population from 53.7% in 2013 to 60% by 2020. As a result, the higher rate of urbanisation will generate huge demand for construction, such as building of public infrastructure, housing and transport networks. Moreover, as previously mentioned in section 1(d), the Chinese government has announced ambitious plans, entitled 12th Five-Year-Plan, to develop transport and energy infrastructure as part of the efforts to accelerate the country's industrial transformation and upgrading. The proposed projects include new railway lines, highways and airports etc., thereby offering more business opportunities for contractors in Hong Kong. According to the National Bureau of Statistics of the PRC, construction output in the PRC has been on an increasing trend, rising from approximately RMB41,557 billion in 2006 to approximately RMB159,313 billion in 2013.

Gross value of construction output works in the PRC (RMB billions)



Source: National Bureau of Statistics of the PRC

Hence, given that the market trends of the Hong Kong and the PRC construction industries remain optimistic and positive, we are of the view that the projected expansion of construction businesses is prudent for the Group's future business prospects.

(c) Alternatives to the Open Offer

After discussing with the Directors, we have been advised that they have consulted certain financial institutions and considered other fund raising alternatives, including but not limited to bank borrowings, share placement and rights issue, before resolving to the Open Offer. The Directors are of the view that debt financing such as bank borrowings would inevitably increase additional interest burden and higher gearing ratio of the Group, share placement may necessarily dilute the shareholding in the Company of the existing Shareholders, the Board considers those fund raising methods to be not preferable. On the other hand, although both open offer and rights issue would allow Shareholders to maintain their proportionate shareholding interests in the Company, the Open Offer is relatively more straightforward administratively and less time consuming compared with a rights issue as rights issue will involve extra administrative work and cost for the trading arrangements in relation to the nil-paid rights, the Board is of the opinion that raising funds by way of the Open Offer is more cost effective and efficient and is the most appropriate method of fund raising as opposed to other alternative means of financing. As set out in the Letter from the Board, the Board considers that it is very important to have funds available immediately when ample opportunities arise in the market. However, the growth of the economy of the PRC remained slow as discussed under "1. Background information of the Company" of this letter, as such, management of the Group did not consider that the performance of the Group's business can be largely improved within short period of time. As mentioned in the Annual Report 2013/14, the Group is proactively seeking growth opportunities in order to maximise returns to the Shareholders. The Group's plan to further develop and expand its existing businesses in Hong Kong and the PRC is in line with its business strategy to seek new source of income and return. We have reviewed unaudited management accounts of the Group and noted that the Group had bank balance and cash of approximately HK$397,849,000 as at 31 August 2014, and were advised by the management of the Group that current internal resources of the Group should be able to meet the funding requirement for further development and expansion of the Group. As advised by the Directors, the Company intends to utilise such current internal resources of the Group, in addition to the net proceeds from the Open Offer, for further product diversification and downstream processing of the Group's reinforcement bar business unit to serve the Hong Kong construction industry and the remaining balance for general working capital purpose. As further mentioned in the Letter from the Board, the Board considers that it is prudent to finance the Group's long-term growth by long-term financing, preferably in the form of equity which will not increase the Group's finance costs. Although shareholding of Excluded Shareholders (if any) and Qualifying Shareholders who do not participate in the Open Offer will be diluted substantially, the Board considers that all Qualifying Shareholders are being offered the equal opportunity to make an informed decision whether to maintain their respective pro-rata shareholding interests in the Company by participating in the Open Offer and all Shareholders may be benefited by the potential future growth of the Group. Accordingly, the Board considers that fund raising through the Open Offer is in the interests of the Company and the Shareholders as a whole.

Based on the foregoing, having taken into account that (i) the Open Offer will enable the Group to enlarge the capital base and strengthen the financial position of the Group for future investment so as to broaden its source of income and improve the Group's profitability; (ii) debt financing or bank loan would result in additional interest burden and finance cost of the Group which would further erode the profitability of the Group; (iii) placing of new shares under general mandate is relatively smaller in scale and would only be available to certain placees who were not necessarily the existing Shareholders and would dilute existing Shareholders' interest in the Company; and (iv) the Open Offer would offer all Qualifying Shareholders equal opportunity to maintain their respective pro rata shareholding interest in the Group and participate in the future growth of the Group by participating in the Open Offer, we are of the view that the Open Offer represent the most commercial viable option considered by the Company and the fund raising by way of Open Offer is in the interests of the Company and Shareholders as a whole. Having taken into consideration of the above, we are of the view that it is reasonable for the Company to maintain a strong capital base and obtain funding for its business development and business operation through the Open Offer. Accordingly, we are of the view that the Open Offer is in the interests of the Company and Shareholders as a whole.

3. Principal terms of the Open Offer

(a) Issue statistics

The Company proposes to raise approximately HK$105.40 million to HK$110.20 million, before expenses, by way of the Open Offer on the basis of one Offer Share for every two Shares held on the Record Date. Further details of the issue statistics of the Open Offer are as follows:

Basis of the Open Offer	:	One (1) Offer Share for every Two (2) Shares held by the Qualifying Shareholders on the Record Date
Subscription Price	:	HK$0.50 per Offer Share with nominal value of HK$0.10 each
Number of Shares in issue as at the Latest Practicable Date	:	421,515,251 Shares
Number of Offer Shares	:	Not less than 210,757,625 Offer Shares (assuming no further issue of new Shares on or before the Record Date) and not more than 220,304,125 Offer Shares (assuming all the outstanding and exercisable Share Options (after taking into account the Option Undertakings) are exercised and no other issue of new Shares on or before the Record Date)

Save for the Share Options, as at the Latest Practicable Date, the Company has no outstanding convertible securities, options or warrants in issue which confer any right to subscribe for, convert or exchange into Shares.

(b) Subscription Price

The Subscription Price is HK$0.50 per Offer Share, payable in full by a Qualifying Shareholder upon acceptance of the assured allotment under the Open Offer. The Subscription Price represents:

(i) a discount of approximately 63.24% to the closing price of HK$1.360 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a discount of approximately 62.96% to the average closing price of HK$1.350 per Share as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day;

(iii) a discount of approximately 53.42% to the theoretical ex-entitlement price of approximately HK$1.073 per Share based on the closing price of HK$1.360 per Share as quoted on the Stock Exchange on the Last Trading Day;

(iv) a discount of approximately 73.28% to the audited net asset value of approximately HK$1.871 per Share (calculated by dividing the audited consolidated net asset value of the Company as at 31 March 2014 as shown in the annual report of the Company for the financial year ended 31 March 2014 by the total number of Shares in issue as at 31 March 2014);

(v) a discount of approximately 73.50% to the audited net asset value as adjusted by the valuation surplus of approximately HK$1.887 per Share (calculated by dividing the audited consolidated net asset value of the Company as at 31 March 2014 as shown in the annual report of the Company for the financial year ended 31 March 2014 (as adjusted by the valuation surplus) by the total number of Shares in issue as at 31 August 2014);

(vi) a discount of approximately 57.26% to the closing price of HK$1.170 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

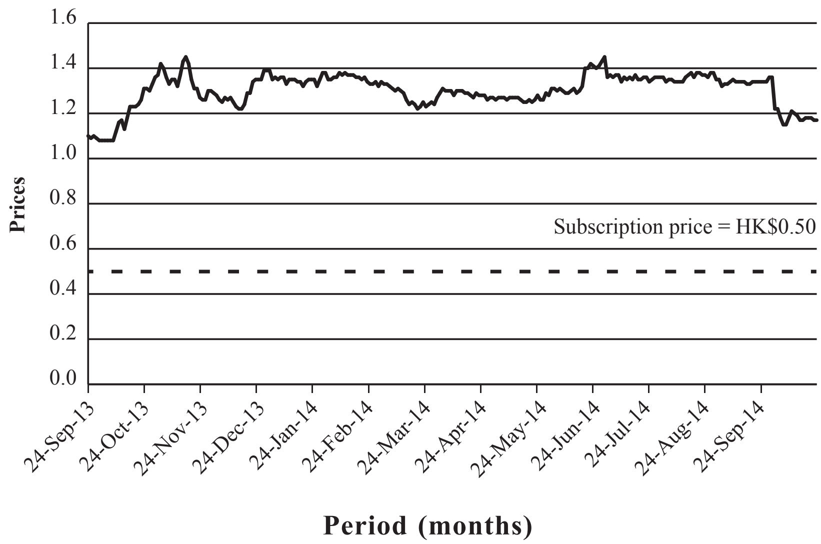
(vii) a discount of approximately 47.18% to the theoretical ex-entitlement price of approximately HK$0.947 per Share as adjusted for the effect of the Open Offer, based on the closing price of HK$1.170 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

As the Offer Shares are offered to all Qualifying Shareholders, the Directors have endeavoured to set the Subscription Price at a level that would encourage the Qualifying Shareholders to participate in the Open Offer and accordingly maintain their shareholdings in the Company and participate in the future growth of the Group. As set out in the Letter from the Board, the Subscription Price was determined after arm's length negotiations between the Company and the Underwriter with reference to the prevailing market price and trading liquidity of the Shares prior to the Last Trading Day. The Directors (excluding the non-executive Directors) consider the terms of the Open Offer, including the Subscription Price which has been set at a relatively deep discount to the recent closing prices of the Shares with an objective to lower the further investment cost of existing Shareholders and encourage them to take up their entitlements so as to participate in the potential growth of the Company, to be fair and reasonable and in the best interests of the Company and the Shareholders as a whole.

(i) Historical closing prices of the Shares

In order to assess the fairness and reasonableness of the Subscription Price, we have reviewed the closing price of the Shares during the period from 24 September 2013, being the 12 months period prior to the date of the Underwriting Agreement, up to and including the Latest Practicable Date (the "**Review Period**"). We consider that a 12-month review period to be a reasonable period of time within the historical trend of the closing price of the Shares can be illustrated in relation to the Open Offer. The chart below illustrates the daily movement in the closing prices of the Shares versus the Subscription Price during the Review Period:

Daily closing price during the Review Period



Source: website of the Stock Exchange (http://www.hkex.com.hk)

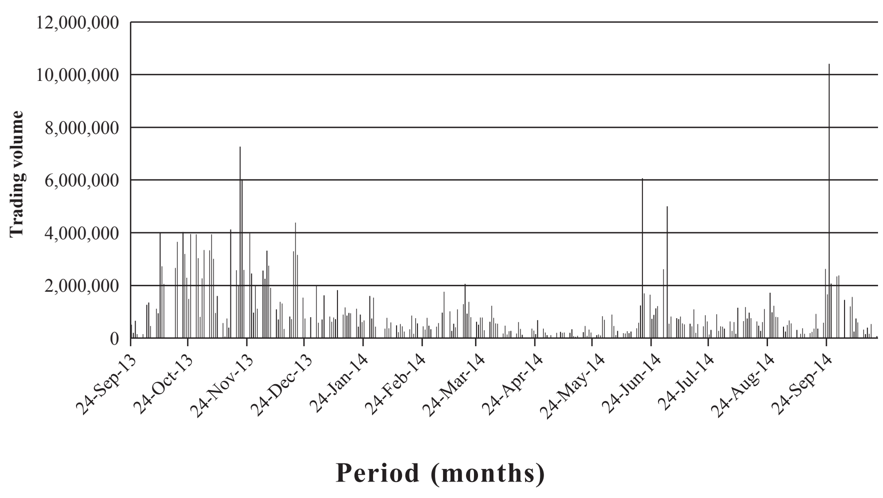
During the Review Period, the lowest and highest closing prices of the Shares were HK$1.08 per Share recorded on 30 September 2013 to 8 October 2013 and HK$1.45 recorded on 18 November 2013 and 30 June 2014 respectively, as quoted on the Stock Exchange. The average daily closing price of the Shares during the Review Period is HK$1.31 per Share. The Subscription Price represents (i) a discount of approximately 65.52% from the highest closing price; (ii) a discount of approximately 53.70% from the lowest closing price; and (iii) a discount of approximately 61.83% from the average daily closing price during the Review Period.

We note from the listed companies set out in the table under section 3(b)(iii) below that it is a common market practice that, in order to enhance the attractiveness of an open offer and to encourage the existing shareholders to participate in the open offer, the subscription price of an open offer normally represents a discount to the prevailing market prices of the relevant shares, and thus are of the view that the Subscription Price being set at a discount to the prevailing market prices of the Shares is in line with the general practice and is acceptable.

(ii) Historical trading liquidity of the Shares

Set out below is the daily trading volume of the Shares during the Review Period:

Daily trading volume of the Shares during the Review Period



Source: website of the Stock Exchange (http://www.hkex.com.hk)

The average daily trading volume of the Shares per month, and the respective percentages of the average daily trading volume as compared to the total number of issued Shares as at the Latest Practicable Date during the Review Period are tabulated as follows:

	Total trading volume of the Shares in the month	Number of trading days in the month	Average daily trading volume of the Shares in the month	Approximate % of average daily trading volume to the number of issued Shares as at the Latest Practicable Date *(Note 1)*
			Number of Shares	*Approximate %*
2013				
September *(Note 2)*	1,678,000	5	335,600	0.08
October	45,254,000	21	2,154,952	0.51
November	53,077,670	21	2,527,508	0.60
December	35,648,804	20	1,782,440	0.42
2014				
January	19,999,000	21	952,333	0.23
February	9,080,000	19	477,895	0.11
March	17,192,412	21	818,686	0.19
April	7,898,146	20	394,907	0.09
May	4,974,000	20	248,700	0.06
June	20,995,000	20	1,049,750	0.25
July	17,058,000	22	775,364	0.18
August	16,132,840	21	768,230	0.18
September	25,219,520	21	1,314,072	0.30
October *(Note 3)*	7,466,000	12	622,167	0.15

Notes:

1. Based on the total number of issued Shares of 421,515,251 Shares as at the Latest Practicable Date.

2. The Review Period commenced on 24 September 2013.

3. The Review Period ended on the Latest Practicable Date.

Source: website of the Stock Exchange (http://www.hkex.com.hk)

The above table illustrates that the average daily trading volume of the Shares per month was thin during the Review Period, with ranges from approximately 0.06% in May 2014 to 0.60% in November 2013 of the total number of issued Shares as at the Latest Practicable Date. We noted that trading in the Shares had been inactive and hence rather illiquid during the Review Period. Accordingly, we are of the view that it would be difficult to attract the Qualifying Shareholders to reinvest in the Company through the Open Offer if the Subscription Price was not set at substantial discount to the historical closing prices of the Shares. Given that discount on the Subscription Price could attract the Qualifying Shareholders to maintain their respective shareholdings in the Company and participate in the future growth of the Group, we consider that the Subscription Price being set as lower than the prevailing market prices of the Shares is in line with general market practice and the current market trend, which we consider is justifiable, fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

(iii) Comparison with other open offer transactions

In assessing the fairness and reasonableness of the Subscription Price, we have also reviewed other open offers conducted by other companies listed on the Main Board and Growth Enterprise Market of the Stock Exchange in order to provide a general reference for the Subscription Price in respect of the common market practice on open offers conducted by listed companies in Hong Kong.

We have, identified an exhaustive list of, fourteen open offers (the "**Comparables**") based on the selection criteria of (i) announced by other companies that are listed on the Stock Exchange throughout the 6 months preceding the date of the Underwriting Agreement, i.e. from 24 March 2014 and up to 24 September 2014 (the date of the Underwriting Agreement); (ii) market capitalisations ranged from HK$200 million to HK$1 billion as at the date of the respective announcements for the open offers, being approximately HK$380 million below and above the Company's market capitalisation of approximately HK$573 million (as at 24 September 2014, the date of the respective announcement for the open offer), which we consider the appropriate range in comparison with the Company's market capitalisation; and (iii) shares of the companies have not been suspended for trading for more than 12 months from the dates of the respective announcements in relation to the open offer transactions, for reference.

It is noted that the business activities of the Comparables vary from company to company with their different sizes, market capitalisations, financial positions, business performances and future prospects. However, we consider that (i) the

Comparables were determined under similar market conditions and sentiments as the Open Offer, and they might be able to reflect the recent trend of open market transactions in the Hong Kong stock market; and (ii) there are reasonable numbers of Comparables for the purpose of comparison. Accordingly, we are of the view that the 6-months review period forms an appropriate basis for our analysis and that the Comparables represent fair and representative samples. Details of our findings are summarised in the following table:

Date of announcement	Company name (Stock code)	Basis of entitlement	Subscription price *(HK$)*	Closing price as quoted on the Stock Exchange on the respective last trading day of the open offer conducted *(HK$)*	Premium/(discount) of subscription price over/(to) the closing price on the respective last trading day *(%)*	Theoretical ex-entitlement price *(Note 1)* *(HK$)*	Premium/(discount) of subscription price over/(to) the theoretical ex-entitlement price *(%)*	Maximum dilution *(Note 2)* *(%)*	Underwriting commission *(%)*	Excess application *(Yes/No)*	Market capitalisation as at the date of the respective announcement for the open offer *(HK$)*
23-Sep-14	Artini China Company Limited (789)	3 for 1	0.10	0.454	(78.00)	0.1885	(46.90)	75.00	1.00	Yes	235,090,861
2-Sep-14	Enviro Energy International Holdings Limited (1102)	1 for 2	0.02	0.133	(84.96)	0.095	(79.02)	33.33	1.50	No	464,641,618
8-Aug-14	DeTeam Company Limited (65)	1 for 1	0.50	0.30	(66.67)	1.00	(50.00)	50.00	0.00	No	343,857,875
4-Aug-14	Chinese Energy Holdings Limited (8009)	1 for 2	0.10	0.21	(52.38)	0.173	(17.46)	33.33	2.50	No	222,356,610
29-Jul-14	China Culiangwang Beverages Holdings Limited (904)	1 for 2	0.25	0.49	(49.00)	0.41	(39.00)	33.33	1.96 *(Note 3)*	No	519,811,865
27-Jul-14	Auto Italia Holdings Limited (720)	1 for 2	0.065	0.108	(39.81)	0.094	(30.85)	33.33	2.00	Yes	345,945,226
27-Jul-14	Integrated Waste Solutions Group Holdings Limited (923)	1 for 1	0.20	0.405	(50.60)	0.303	(34.00)	50.00	2.00	No	868,020,120
22-Jul-14	Henry Group Holdings Limited (859)	1 for 5	0.85	1.12	(24.11)	1.075	(20.93)	16.67	3.00	Yes	832,181,727
9-Jun-14	China Investment and Finance Group Limited (1226)	1 for 2	0.20	0.38	(47.37)	0.32	(37.50)	33.33	2.00	No	221,000,400
9-May-14	China Energy Development Holdings Limited (228)	1 for 4	0.095	0.104	(8.70)	0.102	(7.00)	20.00	2.75	No	950,534,400

Date of announcement	Company name (Stock code)	Basis of entitlement	Subscription price *(HK$)*	Closing price as quoted on the Stock Exchange on the respective last trading day of the open offer conducted *(HK$)*	Premium/ (discount) of subscription price over/ (to) the closing price on the respective last trading day *(%)*	Theoretical ex-entitlement price *(Note 1)* *(HK$)*	Premium/ (discount) of subscription price over/(to) the theoretical ex-entitlement price *(%)*	Maximum dilution *(Note 2)* *(%)*	Underwriting commission *(%)*	Excess application *(Yes/No)*	Market capitalisation as at the date of the respective announcement for the open offer *(HK$)*
7-May-14	DX.com Holdings Limited (8086)	1 for 10	0.10	0.185	(45.95)	0.1773	(43.60)	9.09	3.00	No	917,012,803
25-Apr-14	Hao Tian Development Group Limited (474)	2 for 1	0.25	1.53	(83.66)	0.406	(38.42)	66.67	2.50	No	607,721,478
25-Apr-14	21 Holdings Limited (1003)	1 for 2	0.50	0.99	(49.49)	0.827	(16.46)	33.33	*3.50*	No	224,531,465
11-Apr-14	Sunwah Kingsway Capital Holdings Limited (188)	1 for 4	0.148	0.156	(5.13)	0.154	(3.90)	20.00	2.00	Yes	625,777,464
	Mean		**–**	**–**	**(48.99)**	**–**	**(33.22)**	**36.24**	**2.13**		**527,034,565**
	Maximum		**–**	**–**	**N/A**	**–**	**N/A**	**75.00**	**3.50**		**950,534,400**
	Minimum		**–**	**–**	**N/A**	**–**	**N/A**	**9.09**	**0.00**		**221,000,400**
	Minimum Discount		**–**	**–**	**(5.13)**		**(3.90)**	**N/A**	**N/A**		**N/A**
	Maximum Discount		**–**	**–**	**(84.96)**		**(79.02)**	**N/A**	**N/A**		**N/A**
	Median		**–**	**–**	**(49.25)**	**–**	**(35.75)**	**33.33**	**2.00**		**492,226,741**
24-Sep-14	**The Company (1001)**	**1 for 2**	**0.50**	**1.36**	**(63.24)**	**1.073**	**(53.42)**	**33.33**	**2.00**		**572,977,861**

Notes:

1. The theoretical ex-entitlement price is calculated by adding the market value of all the issued shares (based on the closing price of the shares on the respective last trading day) with the gross amount of subscription proceeds expected to be received from the open offer (before expenses), and then divided by the total number of issued shares as enlarged by the open offer; e.g. in the case of every 1 offer share for every 2 existing shares, (2 x closing price on the last trading day) + 1 x (the subscription price) ÷ (2+1).

2. Maximum dilution effect of each open offer is calculated as: (number of offer shares and (if any) bonus shares to be issued under the basis of entitlement)/(number of existing shares held for the entitlement for the offer shares under the basis of entitlement + number of offer shares and (if any) bonus shares to be issued under the basis of entitlement) x 100%, e.g. (i) for an open offer with basis of 1 offer share for every 1 existing share held with bonus issue on effect is calculated as ((1+1) ÷ (1+1+1) x 100) = 66.7%; and (ii) for an open offer with basis of 1 offer share for every 2 existing shares held, the maximum dilution effect is calculated as 1 ÷ (1+2) = 33.3%

Source: website of the Stock Exchange (http://www.hkex.com.hk)

As shown in the above table, the Comparables had subscription prices at a discount to their respective closing price per share on the respective last trading day prior to the release of the relevant announcements within a range from a discount of approximately 5.13% to approximately 84.96%, with a median discount of approximately 49.25%. The Subscription Price represented a discount of approximately 63.24% to the closing price per Share as quoted on the Stock Exchange on the Last Trading Day, which falls within the range of the Comparables but greater than the median discount of the Comparables. With regards to the discount to the theoretical ex-entitlement price per share of the Comparables, they ranged from a discount of approximately 3.90% to approximately 79.02%, with a median discount of approximately 35.75%. The Subscription Price represented a discount of approximately 53.42% to the theoretical ex-entitlement price per Share, which also falls within the range of the Comparables but greater than the median discount of the Comparables.

Despite the respective range of the Comparables are wide, having taken into account that (i) in general, it is common for the listed issuers in Hong Kong to issue open offers at a discount to the market price in order to enhance the attractiveness of the open offer transaction; (ii) the discounts represented by the Subscription Price to the closing price of the Shares on the Last Trading Date do not exceed the ranges of the Comparables; and (iii) the interest of the Qualifying Shareholders will not be prejudiced by the discount of the Subscription Price so long as they are offered with an equal opportunity to participate in the Open Offer, we consider the discounts of the Subscription Price to the Last Trading Day and theoretical ex-entitlement price which is within the respective range of the Comparables are fair and reasonable.

(c) Underwriting commission

The Company will pay the Underwriter an underwriting commission of 2.00% of the Subscription Price of Underwritten Shares as determined on the Record Date. We were advised by the management of the Group that the Company had approached and discussed with the substantial Shareholder, namely Perfect Capital International Corp., and several independent financial institutions to explore the possibility to underwrite any Offer Shares not taken up by the Qualifying Shareholders, however Perfect Capital International Corp. is the only one who has expressed its strong confidence in the prospect of the Group’s businesses, and its willingness to support and underwrite the Open Offer. The Company decided to select Perfect Capital International Corp. to act as underwriter for the Open Offer.

Based on our review of the underwriting arrangements of the Comparables set out in the table under section 3(b)(iii) above, we noted that the rates of underwriting commission paid by the Comparables ranged from 0.00% to 3.50% with an average of approximately 2.5%; and the underwriting commission of 2.00% of the Subscription Price of Underwritten Shares to be paid to Perfect Capital International Corp. (which is the Underwriter, an associate of Mr. Andrew Yao and a substantial Shareholder) is within the range of the rates of underwriting commission paid by the Comparables and smaller than the median rates of underwriting commission paid by the Comparables. In view of (i) the underwriting commission of 2.00% fall within the range and is equivalent to the median of the underwriting commission of the Comparables; and (ii) Perfect Capital International Corp. is the only one who has expressed its interest in underwriting the Open Offer, we consider that the underwriting commission rate of 2.00% is in line with the market practice and on normal commercial terms and is fair and reasonable as far as the Independent Shareholders are concerned.

(d) Termination of the Underwriting Agreement

Subject to the fulfilment of the conditions contained in the Underwriting Agreement, it should be noted that the Open Offer would not be proceeded if the Underwriter exercises its termination rights under the Underwriting Agreement, details of the provisions granting the Underwriter such termination rights are included in the section headed "Termination of the Underwriting Agreement" in the Letter from the Board.

In view that it is common to have a termination clause incorporated in underwriting agreement, we consider such provisions are normal commercial terms and in line with the normal market practice.

Save as aforesaid, we have also reviewed other major terms of the Underwriting Agreement and we are not aware of any terms being unusual. Consequently, we are of the opinion that the terms of the Underwriting Agreement are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

(e) No application for excess Offer Shares

As stated in the Letter from the Board, there is no arrangement for application of the Offer Shares by the Qualifying Shareholders in excess of their proportionate assured allotment under the Open Offer after arm's length negotiation with the Underwriter. As application for excess application of the Offer Shares would require putting in additional effort and costs to administer the excess application procedures, the Directors consider that the absence of application for excess Offer Shares is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Although the absence of the excess application arrangement may not be desirable from the point of view of those Qualifying Shareholders who wish to take up additional Offer Shares in excess of their assured entitlements, given the fact that the Underwriter is a connected person of the Company, in light of that (i) the absence of excess application should be balanced against the fact the Subscription Price has been set at discount to the closing price on the Last Trading Day which provides reasonable incentive for the Qualifying Shareholders who are positive about the future development of the Company to take up their respective assured entitlement of the Offer Shares and participate in the Open Offer; (ii) the terms of the Open Offer are structured with an intention to encourage all the Qualifying Shareholders to take up their respective assured entitlement of the Offer Shares as the Subscription Price is set at large discount to the prevailing market price of the Shares as an incentive to all the Qualifying Shareholders to participate in the Open Offer, and the The Qualifying Shareholders have the first right to decide whether to accept the Open Offer; (iii) the absence of excess application would lower the administrative costs (including printing costs for application forms, time costs of the Company's employees and charges from the registrar and etc.) of the Open Offer to the Company; and (iv) we also found that amongst the seven Comparables, six companies did not adopt excess application when they conducted fund raising, therefore the absence of the excess application arrangement is not uncommon.

In view of the above, we consider that the Open Offer has already enable to the Qualifying Shareholders to maintain their respective proportionate interests in the Company should they so wish by applying the Offer Shares according to their shareholding in the Company, which we consider to be fair and reasonable. Therefore, the absence of the excess application arrangement, on balance, is acceptable.

4. Possible financial effects of the Open Offer

(a) Adjusted consolidated net tangible assets

Based on the information set out in the "Unaudited pro forma financial information of the Group" contained in Appendix II to the Circular, the unaudited pro forma adjusted consolidated net tangible assets of the Group ("**Pro-Forma NTA**") would amount to approximately HK$808,632,000 as a result of the completion of the Open Offer and receipt of an estimated net proceeds from the Open Offer of approximately HK$104,500,000.

Assuming completion of the Open Offer, the Pro-Forma NTA per Share would be approximately HK$1.23 (based on the enlarged issued share capital of 657,098,000 Shares upon completion of the Open Offer assuming that no outstanding Share Options are exercised and no other Shares are allotted or issued on or before the Record Date), representing a decrease of approximately 25.90% from the unaudited consolidated net tangible asset per Share of approximately HK$1.66 as at 31 March 2014.

Shareholders should take note of the assumptions made in the preparation of the unaudited pro forma financial information of the Group contained in Appendix II to the Circular that, in particular, the pro forma financial information does not take into account any trading results or other transactions of the Group subsequent to 31 March 2014.

(b) Cash resources

According to the Annual Report 2013/14, the Group had cash and cash equivalents of approximately HK$370.52 million as at 31 March 2014.

Upon the completion of the Open Offer, the cash and cash equivalents of the Group will increase as a result of the minimum estimated net proceeds of approximately HK$99.80 million from the Open Offer receivable by the Company.

(c) Gearing ratio

According to the Annual Report 2013/14, the Group's net debt and total capital as at 31 March 2014 were approximately HK$1,161,620,000 and HK$1,942,812,000 respectively. The Company's gearing ratio (being the ratio of net debt to total capital) was therefore approximately 59.79%. The Open Offer will provide additional liquidity in the form of equity to the Group and therefore, will enhance its financial position and capital base and total equity of the Group. Based on the enhanced cash position and enlarged capital base upon completion of the Open Offer, the Company's gearing ratio is expected to be improved.

Based on the above analysis, notwithstanding the negative impact on the Pro-Forma NTA, and after taken into consideration of the enhancement on the cash resources and improvement in the gearing ratio of the Company, we are of the view that, in balance, the Open Offer is beneficial and in the interests of the Company and the Independent Shareholders as a whole. It should be noted that the aforementioned analysis is for illustrative purpose only and does not purport to represent how the financial position of the Group will be upon completion of the Open Offer.

5. Potential dilution effect of the Open Offer on the shareholding interests

As the Open Offer is to be offered to all Qualifying Shareholders on the same basis, the Qualifying Shareholders will be able to maintain their proportional interests in the Company if they take up their allotments under the Open Offer in full. All Qualifying Shareholders are entitled to subscribe the Offer Shares. Any Qualifying Shareholders who choose not to take up in full their assured allotments under the Open Offer will have their shareholdings in the Company diluted by up to a maximum of approximately 33.33%.

For illustration purposes only, assuming that there is no change in the shareholding structure of the Company, from the Latest Practicable Date to immediately after completion of the Open Offer, the possible dilution of the Open Offer on the shareholding structure of the Company is set out in the table below:

(a) Scenario 1 — Assuming no further issue of new Shares on or before the Record Date:

Shareholders	As at Latest Practicable Date		Immediately after completion of the Open Offer assuming all Qualifying Shareholders take up their entitlements under the Open Offer		Immediately after completion of the Open Offer assuming no other Qualifying Shareholders takes up any of their entitlements under the Open Offer (save for Mr. Andrew Yao who undertakes to take up his entitlement under the Open Offer)	
	Number of Shares	*Approximate %*	*Number of Shares*	*Approximate %*	*Number of Shares*	*Approximate %*
The Underwriter and persons acting in concert with it						
The Underwriter	–	–	–	–	209,451,625	33.12
Huge Top	173,424,000	41.15	260,136,000	41.15	173,424,000	27.43
Mr. Andrew Yao	2,612,000	0.62	3,918,000	0.62	3,918,000	0.62
Ms. Miriam Yao	2,000,000	0.47	3,000,000	0.47	2,000,000	0.32
Mr. Dong	142,000	0.03	213,000	0.03	142,000	0.02
Sub-total	**178,178,000**	**42.27**	**267,267,000**	**42.27**	**388,935,625**	**61.51**
Public Shareholders	243,337,251	57.73	365,005,876	57.73	243,337,251	38.49
Total	**421,515,251**	**100.00**	**632,272,876**	**100.00**	**632,272,876**	**100.00**

(b) Scenario 2 — Assuming all the outstanding and exercisable Share Options (after taking into account the Option Undertakings) are exercised and no other issue of new Shares on or before the Record Date:

Shareholders	As at Latest Practicable Date		Assuming all outstanding and exercisable Share Options (after taking into account the Option Undertakings) are exercised before the Record Date		Immediately after completion of the Open Offer assuming all Qualifying Shareholders take up their entitlements under the Open Offer		Immediately after completion of the Open Offer assuming no other Qualifying Shareholders takes up any of their entitlements under the Open Offer (save for Mr. Andrew Yao who undertakes to take up his entitlement under the Open Offer)	
	Number of Shares	*Approximate %*	*Number of Shares*	*Approximate %*	*Number of Shares*	*Approximate %*	*Number of Shares*	*Approximate %*
The Underwriter and persons acting in concert with it								
The Underwriter	–	–	–	–	–	–	218,998,125	33.14
Huge Top	173,424,000	41.15	173,424,000	39.37	260,136,000	39.37	173,424,000	26.24
Mr. Andrew Yao	2,612,000	0.62	2,612,000	0.59	3,918,000	0.59	3,918,000	0.59
Ms. Miriam Yao	2,000,000	0.47	2,000,000	0.45	3,000,000	0.45	2,000,000	0.30
Mr. Dong	142,000	0.03	142,000	0.03	213,000	0.03	142,000	0.02
Sub-total	178,178,000	42.27	178,178,000	40.44	267,267,000	40.44	398,482,125	60.29
Other non-public Shareholders								
Mr. Frank Muñoz	–	–	–	–	–	–	–	–
Mr. Tam King Ching Kenny	–	–	–	–	–	–	–	–
Mr. Xu Lin Bao	–	–	–	–	–	–	–	–
Mr. Tse Lung Wa Teddy	–	–	–	–	–	–	–	–
Sub-total	–	–	–	–	–	–	–	–
Other Share Option holders	–	–	19,093,000	4.33	28,639,500	4.33	19,093,000	2.89
Public Shareholders	243,337,251	57.73	243,337,251	55.23	365,005,876	55.23	243,337,251	36.82
Total	**421,515,251**	**100.00**	**440,608,251**	**100.00**	**660,912,376**	**100.00**	**660,912,376**	**100.00**

Note: The entire issued share capital of the Underwriter is legally and beneficially owned by Mr. Andrew Yao. Mr. Andrew Yao and all of his associates, including Huge Top and Ms. Miriam Yao, are persons acting in concert with the Underwriter. Mr. Dong is also deemed to be a person acting in concert with the Underwriter. Save for Mr. Andrew Yao and Mr. Dong, no Director is interested in any Shares.

As the Open Offer is offered to all Qualifying Shareholders on the same basis, the Qualifying Shareholders will be able to maintain their proportional interests in the Company if they take up their allotments under the Open Offer in full. Any Qualifying Shareholders who choose not to take up in full their assured entitlements under the Open Offer will have their shareholdings in the Company diluted by up to a maximum of approximately 33.33% from their shareholding interest upon completion of the Open Offer.

As in all open offers, a dilution in the shareholdings of Excluded Shareholders (if any) and those Qualifying Shareholders who do not take up in full their assured entitlements under the Open Offer is inevitable. The dilution magnitude of any open offers depend mainly on the extent of the basis of entitlement under such exercises, where the higher the offering ratio of offer shares to existing shares is, the greater the dilution on the existing shareholdings would be.

After taking into account that (i) the Open Offer would enhance the Group's liquidity and gearing ratio; (ii) the Open Offer is on the basis that all Qualifying Shareholders have been offered the same opportunity to maintain their proportional interests in the Company and allows the Qualifying Shareholders to participate in the growth of the Company; (iii) the inherent dilutive nature of Open Offer in general; (iv) debt financing or bank loans will incur further interest burden to the Company; and (v) the Open Offer would strengthen the capital base of the Company for further product diversification and downstream processing of the Group's reinforcement bar business unit to serve the Hong Kong construction industry and for general working capital purpose (please also refer to the paragraph headed "(2) Reasons for the Open Offer and use of proceeds" above for details), we consider that the level of potential dilution to the shareholding interests of the Shareholders, which may only happen to the Excluded Shareholders (if any) and the Qualifying Shareholders who decide not to accept their assured entitlements in full, as a result of the Open Offer, is acceptable.

6. Whitewash Waiver

As at the Latest Practicable Date, the Underwriter, Huge Top, Mr. Andrew Yao, Ms. Miriam Yao, Mr. Dong and persons acting in concert with any of them, in aggregate, hold 178,178,000 Shares, representing approximately 42.27% of the existing issued share capital of the Company. In the event that the Underwriter is called upon to subscribe for the Underwritten Shares in full pursuant to its obligations under the Underwriting Agreement, the interests of the Underwriter and persons acting in concert with it will increase by more than 2% to approximately 61.51% (assuming that no outstanding and exercisable Share Options (after taking into account the Option Undertakings) are exercised and no other Shares are allotted or issued on or before the Record Date. Accordingly, in the absence of the Whitewash Waiver, the underwriting by the Underwriter of the Open Offer will trigger an obligation to make a mandatory general offer under Rule 26 of the Takeovers Code for all the securities of the Company not already owned or agreed to be acquired by the Underwriter and persons acting in concert with it.

The Underwriter has made an application for the Whitewash Waiver to the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. Pursuant to the Takeovers Code, the Whitewash Waiver will be conditional on, among other things, the approval of the Independent Shareholders at the SGM by way of poll. The Executive has agreed, subject to, among other things, the approval of the Independent Shareholders at the SGM to not grant the Whitewash Waiver. If the Whitewash Waiver is not granted by the Executive or if granted, is not approved by the Independent Shareholder, the Open Offer will not proceed. We wish to highlight that if the Whitewash Waiver is granted, upon completion of the Open Offer, the Underwriter and persons acting in concert with it may hold more than 50% of the enlarged issued share capital of the Company in which case, the Underwriter and persons acting in concert with it may increase its shareholding to acquire further voting rights in the Company without incurring any further obligations under Rule 26 of the Takeovers Code to make a general offer.

As stated in the Letter from the Board of this Circular, the Open Offer is conditional upon, among other things, the Executive granting the Whitewash Waiver to the Underwriter. Based on our analysis of the historical financial performance of the Group, terms of the Open Offer, reasons for and the use of proceeds of the Open Offer as set out above, we consider that the Open Offer is in the interests of the Company and the Independent Shareholders as a whole and the terms of which are fair and reasonable. If the Whitewash Waiver is not granted by the Executive or if the Whitewash Waiver is not approved by the Independent Shareholders at the SGM, the Open Offer will not become unconditional and will not proceed, and the Company will lose all the benefits that are expected to be brought by the completion of the Open Offer. Accordingly, given that (i) the Group's financial position and the total equity attributable to the owners of the Company will be strengthened as a result of the Open Offer; (ii) the net proceeds from the Open Offer are intended to be used as to approximately 70% for further product diversification and downstream processing of the Group's reinforcement bar business unit to serve the Hong Kong construction industry and the remaining balance for general working capital (please also refer to the paragraph headed "(2) Reasons for the Open Offer and use of proceeds" above for details); and (iii) all Qualifying Shareholders will be provided with an equal opportunity to take up the Offer Shares in accordance with their provisional entitlements under the Open Offer and their respective interests in the Company will not be diluted if they elect to take up in full of their provisional allotments under the Open Offer, we are in the opinion that, for the purposes of implementing the Open Offer as discussed above, we consider that the approval of the Whitewash Waiver by the Independent Shareholders at the SGM is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

RECOMMENDATION

Having considered that the principal factors and reasons as mentioned above, which include:

(i) the reasons for the Open Offer and the use of proceeds;

(ii) the principal terms of the Open Offer, in particular, comparison of the Subscription Price with the audited net asset value; the audited net asset value as adjusted by the valuation surplus; and historical closing prices and trading volume of the Shares;

(iii) the Open Offer would be a preferred method of equity financing as compared with other alternative means of fund raising exercise available to the Company;

(iv) the principal terms of the Open Offer are within market range as compared with the terms of open offer transactions by the Comparables;

(v) the terms of the Underwriting Agreement are fair and reasonable, in particular, the underwriting commission is within a market range of the Comparables;

(vi) potential dilution effect on the shareholding interests; and

(vii) financial effects of the Open Offer,

we consider that, the terms of the Open Offer are fair and reasonable so far as the Independent Shareholders are concerned and the Open Offer is in the interests of the Company and the Independent Shareholders as a whole. We would therefore advise the Independent Shareholders and the Independent Board Committee to recommend that the Independent Shareholders to vote in favour of the resolution(s) to approve the Open Offer to be proposed at the SGM.

The Open Offer is conditional upon the approval of the Whitewash Waiver. If the Whitewash Waiver is not approved, the Open Offer will not become unconditional and will not proceed. Having taken into account our recommendation on the Open Offer above, we consider the terms of Whitewash Waiver is fair and reasonable so far as the Independent Shareholders are concerned and the Whitewash Waiver is in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we would advise the Independent Shareholders to vote in favour of the resolution(s) to approve the Whitewash Waiver to be proposed at the SGM.

Yours faithfully,
For and on behalf of
Grand Vinco Capital Limited
Alister Chung
Managing Director

1. THREE YEARS FINANCIAL SUMMARY

Set out below is a summary of the consolidated financial results and assets and liabilities of the Company for the financial years ended 31 March 2012, 2013 and 2014, extracted from the 2012, 2013 and 2014 annual reports of the Company respectively.

Results

	For the financial year ended 31 March		
	2012	**2013**	**2014**
	HK$'000	*HK$'000*	*HK$'000*
	(Audited)	(Audited)	(Audited)
Revenue	4,432,081	3,760,620	3,849,306
Cost of sales	(4,260,894)	(3,405,558)	(3,479,263)
Gross Profit	171,187	355,062	370,043
Operating profit	21,311	117,373	114,411
Profit before income tax	6,060	100,815	149,356
Income tax credit/(expense)	4,787	(29,355)	(44,537)
Profit for the year	10,847	71,460	104,819
Profit for the year attributable to:			
— Equity holders of the Company	6,283	71,600	103,708
— Non-controlling interests	4,564	(140)	1,111
Earnings per Share attributable to the equity holders of the Company			
— Basic	HK1.52 cents	HK17.30 cents	HK24.93 cents
— Diluted	HK1.51 cents	HK17.14 cents	HK23.91 cents
Dividends	7,454	21,525	31,094
Dividend per Share	HK1.80 cents	HK5.20 cents	HK7.45 cents

Assets and Liabilities

	As at 31 March		
	2012	**2013**	**2014**
	HK$'000	*HK$'000*	*HK$'000*
	(Audited)	(Audited)	(Audited)
Total assets	1,789,950	1,779,170	2,652,973
Total liabilities	(1,098,227)	(1,029,032)	(1,871,341)
Non-controlling interests	(32,816)	(35,014)	(440)
Equity attributable to equity holders of the Company	658,907	715,124	781,192

The Company has no item which is exceptional or extraordinary because of size, nature or incidence for each of the financial years ended 31 March 2012, 2013 and 2014.

The consolidated financial statements for the financial years ended 31 March 2012, 2013 and 2014 were audited by PricewaterhouseCoopers, the independent auditor of the Company. No qualification was made by the auditor of the Company in respect of the audited consolidated financial statements for the financial years ended 31 March 2012, 2013 and 2014 of the Company.

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE COMPANY FOR THE FINANCIAL YEAR ENDED 31 MARCH 2014

Set out below are the audited consolidated financial statements of the Company for the financial year ended 31 March 2014 together with the accompanying notes as extracted from the 2014 annual report of the Company.

Consolidated Income Statement

For the financial year ended 31 March 2014

	Note	**2014** *HK$'000*	**2013** *HK$'000*
Revenue	*5*	3,849,306	3,760,620
Cost of sales	*7*	(3,479,263)	(3,405,558)
Gross profit		370,043	355,062
Selling and distribution expenses	*7*	(53,623)	(31,494)
General and administrative expenses	*7*	(288,337)	(206,729)
Other gains — net	*6*	13,306	534
Fair value gain on investment properties	*16*	73,022	–
Operating profit		114,411	117,373
Finance income	*10*	2,617	1,412
Finance costs	*10*	(37,252)	(21,499)
Share of profit of investments accounted for using equity method — net	*21*	69,580	3,529
Profit before income tax		149,356	100,815
Income tax expense	*11*	(44,537)	(29,355)
Profit for the year		104,819	71,460
Attributable to:			
Equity holders of the Company	*14*	103,708	71,600
Non-controlling interests		1,111	(140)
		104,819	71,460

	Note	2014 *HK$'000*	2013 *HK$'000*
Earnings per ordinary share attributable to the equity holders of the Company			
Basic	*14*	HK24.93 cents	HK17.30 cents
Diluted	*14*	HK23.91 cents	HK17.14 cents
Dividends	*13*	31,094	21,525
Profit for the year		104,819	71,460
Other comprehensive income:			
Items that may be subsequently reclassified to profit or loss:			
Change in fair value of available-for-sale financial asset		(35)	(190)
Currency translation differences		(3,747)	1,119
Other comprehensive (loss)/income for the year		(3,782)	929
Total comprehensive income for the year		101,037	72,389
Total comprehensive income/(loss) attributable to:			
— Equity holders of the Company		99,237	72,408
— Non-controlling interests		1,800	(19)
		101,037	72,389

Consolidated Statement of Financial Position

As at 31 March 2014

		Consolidated		Company	
		2014	**2013**	**2014**	**2013**
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets					
Property, plant and equipment	*15*	14,954	14,767	—	—
Investment properties	*16*	1,005,580	22,000	—	—
Land use rights	*17*	10,123	10,324	—	—
Intangible assets	*18*	87,183	18,136	—	—
Investments in subsidiaries	*20*	—	—	532,948	514,543
Investments in associates	*21*	237,179	182,592	—	—
Prepayments, deposits and other receivables	*27*	26,335	—	—	—
Deferred income tax assets	*22*	14,995	15,204	—	—
Available-for-sale financial asset	*23*	283	255	—	—
Amount due from an associate	*21*	—	6,197	—	—
Total non-current assets		1,396,632	269,475	532,948	514,543
Current assets					
Inventories	*25*	332,993	365,717	—	—
Trade and bill receivables	*26*	405,355	423,490	—	—
Loan receivable	*26*	—	19,000	—	—
Prepayments, deposits and other receivables	*27*	106,810	117,825	69	66
Derivative financial instruments	*24*	—	1,059	—	—
Amounts due from associates	*21*	1,197	24,773	—	—
Pledged bank deposits	*28*	39,458	97,428	10,473	12,050
Cash and cash equivalents	*28*	370,528	460,403	361	8,928
Total current assets		1,256,341	1,509,695	10,903	21,044
Current liabilities					
Trade and bill payables	*29*	80,028	340,141	—	—
Receipts in advance		42,440	48,328	—	—
Accrued liabilities and other payables	*30*	55,406	47,856	103	70
Current income tax liabilities		8,629	10,860	—	—
Derivative financial instruments	*24*	912	—	—	—
Borrowings	*31*	1,010,011	581,030	—	—
Total current liabilities		1,197,426	1,028,215	103	70
Net current assets		58,915	481,480	10,800	20,974
Total assets less current liabilities		1,455,547	750,955	543,748	535,517

		Consolidated		Company	
		2014	2013	2014	2013
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current liabilities					
Accrued liabilities and other payables	*30*	4,990	—	—	—
Deferred income tax liabilities	*22*	107,330	817	—	—
Borrowings	*31*	561,595	—	—	—
Total non-current liabilities		673,915	817	—	—
Net assets		781,632	750,138	543,748	535,517
Equity					
Capital and reserves attributable to equity holders of the Company					
Share capital	*32*	41,770	41,377	41,770	41,377
Reserves	*34*				
— Proposed final dividend	*13*	17,335	12,000	17,335	12,000
— Others		722,087	661,747	484,643	482,140
		781,192	715,124	543,748	535,517
Non-controlling interests		440	35,014	—	—
Total equity		781,632	750,138	543,748	535,517

Consolidated Statement of Changes in Equity

For the financial year ended 31 March 2014

	Attributable to equity holders of the Company					
	Share capital	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 32)	*(Note 34)*	*(Note 34)*			
As at 1st April 2012	41,413	530,478	87,016	658,907	32,816	691,723
Profit for the year	—	—	71,600	71,600	(140)	71,460
Other comprehensive income						
— Change in fair value of available-for-sale financial asset	—	(190)	—	(190)	—	(190)
— Currency translation differences	—	998	—	998	121	1,119
Total comprehensive income	—	808	71,600	72,408	(19)	72,389
Contributions by and distributions to owners of the VSC Group recognised directly in equity						
Transfer from retained earnings	—	425	(425)	—	—	—
Lapse of share options	—	(1,735)	1,735	—	—	—
Share option scheme — value of services	—	2,748	—	2,748	—	2,748
Acquisition of a subsidiary	—	—	—	—	12,014	12,014
Loss on control of subsidiaries	—	(1,469)	—	(1,469)	(9,159)	(10,628)
Share repurchased and cancelled	(145)	145	(1,175)	(1,175)	—	(1,175)
Exercise of share options	109	575	—	684	—	684
Dividends paid to equity holders of the Company						
— 2012 final dividend	—	—	(7,454)	(7,454)	—	(7,454)
— 2013 interim dividend	—	—	(9,525)	(9,525)	—	(9,525)
Dividends paid to a non-controlling shareholder of a subsidiary	—	—	—	—	(638)	(638)
Total contributions by and distributions to owners of the VSC Group	(36)	689	(16,844)	(16,191)	2,217	(13,974)
As at 31st March 2013	41,377	531,975	141,772	715,124	35,014	750,138

	Attributable to equity holders of the Company					
	Share capital	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 32)	*(Note 34)*	*(Note 34)*			
As at 1st April 2013	41,377	531,975	141,772	715,124	35,014	750,138
Profit for the year	—	—	103,708	103,708	1,111	104,819
Other comprehensive income						
— Change in fair value of available-for-sale financial asset	—	(35)	—	(35)	—	(35)
— Currency translation differences	—	(4,436)	—	(4,436)	689	(3,747)
Total comprehensive income	—	(4,471)	103,708	99,237	1,800	101,037
Contributions by and distributions to owners of the VSC Group recognised directly in equity						
Realisation of currency translation differences on disposal of an associate	—	(18,360)	—	(18,360)	—	(18,360)
Transfer from retained earnings	—	450	(450)	—	—	—
Lapse of share options	—	(608)	608	—	—	—
Share option scheme — value of services	—	763	—	763	—	763
Change in ownership in a subsidiary without change of control	—	(3,449)	11,590	8,141	(36,374)	(28,233)
Share repurchased and cancelled	(113)	113	(1,306)	(1,306)	—	(1,306)
Exercise of share options	506	2,964	—	3,470	—	3,470
Dividends paid to equity holders of the Company						
— 2013 final dividend	—	—	(12,092)	(12,092)	—	(12,092)
— 2014 interim dividend	—	—	(13,785)	(13,785)	—	(13,785)
Total contributions by and distributions to owners of the VSC Group	393	(18,127)	(15,435)	(33,169)	(36,374)	(69,543)
As at 31st March 2014	41,770	509,377	230,045	781,192	440	781,632

Consolidated Statement of Cash Flows

For the financial year ended 31 March 2014

	Note	2014 HK$'000	2013 HK$'000
Cash flows from operating activities			
Cash (used in)/generated from operations	35(a)	(129,426)	299,753
Interest received		2,617	1,412
Interest paid		(37,252)	(21,499)
Hong Kong profits tax (paid)/refunded		(20,077)	401
China corporate income tax paid		(7,903)	(5,957)
Net cash (used in)/generated from operating activities		(192,041)	274,110
Cash flows from investing activities			
Purchase of property, plant and equipment	15	(4,834)	(24,116)
Proceeds from disposals of property, plant and equipment	35(b)	366	603
Acquisition of a business	36	(852,873)	(8,041)
Proceeds from disposal of interest in a subsidiary	35(c)	–	3,509
Purchase of an available-for-sale financial asset	23	(63)	–
Dividend received from an associate		–	2,107
Loan to an associate		–	(12,395)
Acquisition of a non-controlling interest		(28,233)	–
Net cash outflow from investing activities		(885,637)	(38,333)

	Note	2014 HK$'000	2013 HK$'000
Cash flows from financing activities			
New bank loans		861,849	67,417
Repayment of bank loans		(191,350)	(84,141)
Net increase/(decrease) in trust receipt bank loans		281,181	(56,387)
Decrease in pledged bank deposits		57,970	36,397
Dividends paid to equity holders of the Company		(25,877)	(16,979)
Dividends paid to a non-controlling shareholder of a subsidiary		–	(638)
Capital injection by non-controlling shareholders of a subsidiary		–	11,911
Share repurchased		(1,306)	(1,175)
Exercise of share options		3,470	684
Net cash inflow/(outflow) from financing activities		985,937	(42,911)
(Decrease)/increase in cash and cash equivalents		(91,741)	192,866
Cash and cash equivalents, beginning of the year		460,403	267,448
Translation adjustments		1,866	89
Cash and cash equivalents, end of the year		370,528	460,403

Notes to the Consolidated Financial Statements

For the financial year ended 31 March 2014

1. General information

Van Shung Chong Holdings Limited (the "Company") is a limited liability company incorporated in Bermuda on 12th January 1994 as an exempted company under the Companies Act 1981 of Bermuda. The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 18th February 1994. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

The Company and its subsidiaries (the "VSC Group") are principally engaged in stockholding and distribution of construction materials such as steel products, sanitary wares, kitchen cabinets, home furniture and engineering plastics, installation work of kitchen cabinets and property investment.

These consolidated financial statements are presented in Hong Kong dollar ("HK$"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 30th June 2014.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1. Basis of preparation

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). They have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial asset and derivative financial instruments at fair value and investment properties, which are carried at fair value.

The VSC Group is engaged in the trading of steel products and exposes to the commodity price risk. At the date of approving these consolidated financial statements, the VSC Group's committed sale orders exceed the aggregate amount of on hand inventories and committed purchase orders and fluctuations of steel price could affect the VSC Group's financial performance significantly. Further details of financial risk factors are set out in Note 3 to the consolidated financial statements.

Although the risk cannot be completely guarded against, the VSC Group has plans to minimise the potential impacts. These plans, including adjusting the level of inventory on hand, committing to supply contracts with suppliers and/or entering into commodity futures on steel, are primarily aimed at reducing the potential exposure to steel price fluctuation.

The preparation of these consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the VSC Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

(a) The VSC Group has adopted the following new, revised and amended standards and interpretations to existing standards ("new HKFRS") that have been issued and are effective for the VSC Group's accounting year beginning on or after 1st April 2013:

HKAS 1 (Amendment)	Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income
HKAS 19 (Amendment)	Employee Benefits
HKAS 27 (Revised 2011)	Separate Financial Statements
HKAS 28 (Revised 2011)	Investment in Associates and Joint Ventures
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosures of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKFRS 10, HKFRS 11, HKFRS 12 (Amendment)	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HKFRS 1 (Amendment)	First Time Adoption — Government Loans
HKFRS 7 (Amendment)	Financial Instruments — Disclosures on Asset and Liability Offsetting
HK (IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine
Annual Improvements 2009 — 2011 Cycle	Annual Improvements to HKFRSs issued in June 2012

The adoption of the above new HKFRSs did not result in substantial changes to the accounting policies of the VSC Group and had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented.

(b) The following new, revised and amended standards and interpretations to existing standards that are effective and have not been early adopted by the VSC Group:

HKAS 32 (Amendment)	Financial Instruments: Presentation on Asset and Liability Offsetting (effective for annual periods beginning on or after 1st January 2014)
HKAS 36 (Amendment)	Impairment of Assets: Recoverable Amount Disclosures (effective for annual periods beginning on or after 1st January 2014)
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement — Novation of Derivatives (effective for annual periods beginning on or after 1st January 2014)
HKFRS 9	Financial Instruments (effective for annual periods: to be determined)
HKFRS 10, HKFRS 12 and HKAS 27 (Amendment)	Consolidation for Investment Entities (effective for annual periods beginning on or after 1st January 2014)
HKFRS 14	Regulatory deferral accounts (effective for annual periods beginning on or after 1st January 2016)
HK (IFRIC)-Int 21	Levies (effective for annual periods beginning on or after 1st January 2015)

The VSC Group has commenced an assessment of the impact of these new, amended and revised HKFRS, but is not yet in a position to state whether they would have a significant impact on its results of operations and financial position.

2.2. Subsidiaries

(a) Consolidation

A subsidiary is an entity (including a structured entity) over which the VSC Group has control. The VSC Group controls an entity when the VSC Group is exposed to, or has right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the VSC Group. They are deconsolidated from the date that control ceases.

(i) Business combinations

The VSC Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the VSC Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill (Note 2.7).

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the group's accounting policies.

(ii) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity.

(b) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3. Associates

An associate is an entity over which the VSC Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The VSC Group's investments in associates include goodwill identified on acquisition.

The VSC Group's share of post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the VSC Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the VSC Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The VSC Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the VSC Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to "share of profit of investments accounted for using equity method-net" in the consolidated income statement.

Profits and losses resulting from upstream and downstream transactions between the VSC Group and its associate are recognised in the VSC Group's consolidated financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the VSC Group.

2.4. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker ("CODM"), who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that make strategic decisions.

2.5. Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the VSC Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in HK$, which is the Company's functional and the VSC Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement. All foreign exchange gains and losses are presented in the consolidated income statement within "other gains — net".

(c) Group companies

The results and financial position of all the VSC Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting currency translation differences are recognised as a separate component of other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation difference is recognised in other comprehensive income.

2.6. Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the VSC Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated income statement during the financial year in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

— Buildings	2% to 5%
— Leasehold improvements	20% to 33%
— Furniture and equipment	15% to 33%
— Machinery	10% to 25%
— Motor vehicles	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.10).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within "general and administrative expenses" in the consolidated income statement.

2.7. Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred over the VSC Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) Distribution rights

Distribution rights acquired in a business combination are recognised at fair value at the acquisition date. Distribution rights have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of distribution rights over their estimated useful life of 10 years.

(c) Use right of car park

Use right of car park acquired in a business combination is recognised at fair value at the acquisition date. Use right of car park has a finite useful life and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of use right of car park over its estimated useful life of 20 years.

2.8. Land use rights

The up-front prepayments made for land use rights are accounted for as operating leases. They are recognised in the consolidated income statement on a straight-line basis over the periods of the land use rights, or when there is impairment, the impairment is recognised in the consolidated income statement.

2.9. Investment properties

Investment properties, principally comprising leasehold land and buildings, are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the companies in the VSC Group. Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. In such case, the operating lease is accounted for as if it were a finance lease.

Investment properties are measured initially at its cost, including related transaction costs. After initial recognition, investment properties are carried at fair value, representing open market value determined at each reporting date by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the external valuers use alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Changes in fair values are recognised in the consolidated income statement as a valuation gain or loss.

2.10. Impairment of non-financial assets

Assets that have an indefinite useful life-for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.11. Financial assets

(a) Classification

The VSC Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The VSC Group's loans and receivables comprise "trade and bill receivables", "prepayments, deposits and other receivables", "loan receivable", "amounts due from associates", "pledged bank deposits" and "cash and cash equivalents" in the consolidated statement of financial position (Notes 2.15 and 2.16).

(iii) Available-for-sale financial asset

Available-for-sale financial asset is nonderivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

(b) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the VSC Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed i n the consolidated income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the VSC Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial asset and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are recognised in the consolidated income statement, within "other gains — net" in the period in which they arise.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

2.12. Impairment of financial assets

(a) Assets carried at amortised cost

The VSC Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

(b) Assets classified as available-for-sale

The VSC Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial asset, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

2.13. Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Since the derivative instruments entered into by the VSC Group do not qualify for hedge accounting, changes in the fair value of these derivative instruments are recognised immediately in the consolidated income statement within "other gains — net".

2.14. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, firstout method. It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.15. Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.16. Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand and deposits held at call with banks with original maturities of three months or less.

2.17. Share capital

Ordinary shares are classified as equity.

Where any group company purchases the VSC Group's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to owners of the VSC Group until the shares are cancelled or reissued.

2.18. Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.19. Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down.

Borrowings are classified as current liabilities unless the VSC Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

2.20. Borrowing costs

General and specific borrowing costs directly attributable to the acquisitions, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

2.21. Current and deferred income tax

The tax expense for the period comprises current and deferred income tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to item recognised directly in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from initial recognition of goodwill. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the VSC Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the VSC Group is unable to control the reversal of the temporary difference for associates. Only where there is an agreement in place that gives the VSC Group the ability to control the reversal of the temporary difference not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries and associates only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.22. Employee benefits

(a) Pension obligation

The VSC Group operates defined contribution plan. The schemes are generally funded through payments to insurance companies or trustee administered funds, determined by periodic actuarial calculations.

A defined contribution plan is a pension plan under which the VSC Group pays fixed contributions into a separate entity. The VSC Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The VSC Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The VSC Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Termination benefits

Termination benefits are payable when employment is terminated by the VSC Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The VSC Group recognises termination benefits when it is demonstrably committed to a termination when the entity has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(c) Bonus plans

The VSC Group recognises a liability and an expense for bonus. The VSC Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(d) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

2.23. Share-based payments

The VSC Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the VSC Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);

- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and

- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

At the end of each reporting period, the VSC Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision of original estimates, if any, in the consolidated income statement with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

2.24. Provision

Provisions for environment restoration, restructuring costs and legal claims are recognised when: the VSC Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

2.25. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The VSC Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the VSC Group's activities as described below. The VSC Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised as follows:

(a) Sales of goods

Sales of goods are recognised when a group entity has delivered products to the customer, the customer has full discretion over channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery does not occur until the products have been shipped to the specified location, the risk of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with sales contract, the acceptance provisions have lapsed, or the VSC Group has objective evidence that all criteria for acceptance have been satisfied.

(b) Service income

For sales of services, revenue is recognised in accounting period in which the services are rendered, by reference to stage of completion of the specific transaction and assessed on the basis of actual services provided as a proportion of the total service to be provided.

(c) Rental income

Rental income from investment properties is recognised in consolidated income statement on a straight-line basis over the period of the relevant leases.

2.26. Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the VSC Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognised using the original effective interest rate.

2.27. Dividend income

Dividend income is recognised when the right to receive payment is established.

2.28. Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor), are charged to the consolidated income statement on a straight-line basis over the period of the leases.

2.29. Dividend distribution

Dividend distribution to the Company's equity holders is recognised as a liability in the VSC Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

3. Financial risk management

3.1. Financial risk factors

The VSC Group's activities expose it to a variety of financial risks: market risk (including price risk, foreign exchange risk, and cash flow and fair value interest rate risk), credit risk, and liquidity risk. The VSC Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the VSC Group's financial performance.

Risk management is carried out by a central treasury department (group treasury) under policies approved by the board of directors. The VSC Group treasury identifies, evaluates and hedges financial risks in close co-operation with the group's operating units. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk and credit risk.

(a) Market risk

(i) Price risk

The VSC Group is subject to commodity price risk because certain subsidiaries of the VSC Group are engaged in the trading of steel products. As at 31st March 2014, the VSC Group had committed sales orders of steel products for which the selling price is fixed, which exceeded the aggregate amount of onhand inventories and committed purchase orders. Over the coming year, the VSC Group will be required to purchase steel products to fulfil these committed sales orders not covered by inventories and committed purchase orders. As the prices of steel products can fluctuate materially, the VSC Group's results may be affected significantly by future fluctuations in steel prices (Note 4 (a)). To manage its commodity price risk arising from committed sales orders, the VSC Group is closely monitoring the market price of steel products and adjusting their procurement strategy accordingly.

The VSC Group is subject to price risk from its investment in listed shares. Management does not consider the risk is significant since the carrying value of the listed shares is immaterial.

(ii) Foreign exchange risk

The VSC Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar ("US$") and the Chinese Renminbi ("RMB"). Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

Management has set up a policy to require group companies to manage their foreign exchange risk against their functional currency. The VSC Group companies are required to hedge their entire foreign exchange risk exposure with the VSC Group treasury. The VSC Group use forward contracts to manage their foreign exchange risk arising from future commercial transactions and recognised assets and liabilities. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

The VSC Group has certain investments in foreign operations, which net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the VSC Group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

At 31st March 2014, if HK$ had weakened/ strengthened by 1% against the RMB with all other variables held constant, profit before income tax would have been approximately HK$2,117,000 (2013: HK$1,445,000) higher/ lower, mainly as a result of foreign exchange gains/(losses) on translation of RMB denominated monetary assets and liabilities.

The fair values of certain forward foreign exchange contracts are determined using the quoted RMB/US$ forward exchange rates. If RMB appreciated/depreciated against US$ by 1% with all other variables held constant, profit before income tax for the year would have been lower/higher by approximately HK$1,474,000 (2013: HK$3,416,000).

(iii) Cash flow and fair value interest rate risk

The VSC Group's interest rate risk arises mainly from borrowings. Borrowings obtained at variable rates expose the VSC Group to cash flow interest rate risk.

The VSC Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the VSC Group calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest bearing positions.

At 31st March 2014, if interest rates on floating rate borrowings had been 100 basis points higher/lower with all other variables held constant, profit before income tax for the year would have been approximately HK$15,716,000 lower/ higher (2013: HK$5,810,000), mainly as a result of higher/lower interest expenses on floating rate borrowings.

(b) Credit risk

Credit risk is managed on a group basis, except for credit risk relating to accounts receivable balances. Each local entity is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a high credit rating are accepted.

The VSC Group has policies in place to ensure that sales are made to customers with an appropriate financial strength and appropriate percentage of down payment. It also has other monitoring procedures to ensure that follow up action is taken to recover overdue debts. In addition, the VSC Group reviews regularly the recoverable amount of each individual receivable to ensure that adequate impairment losses are made for irrecoverable amounts.

As at 31st March 2014, the VSC Group has a concentration of credit risk given that the top 10 customers account for approximately 29% (2013: 34%) of the VSC Group's total year end trade and bill receivables balance. Management considers that the credit risk in respect of these customers is currently low after considering the financial position and past experience with these customers. The VSC Group's historical experience in collection of trade and bill receivables falls within the recorded allowances and the directors are of the opinion that adequate provision for uncollectible trade and bill receivables has been made.

(c) Liquidity risk

Cash flow forecasting is performed in the operating entities of the VSC Group and aggregated by group finance. The VSC Group finance monitors rolling forecasts of the VSC Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities (Note 31) at all times so that the VSC Group does not breach borrowing limits or covenants on any of its borrowing facilities. Such forecasting takes into consideration the VSC Group's debt financing plans, covenant compliance and compliance with internal ratio of the consolidated statement of financial position targets.

Surplus cash held by the operating entities over and above balance required for working capital management are transferred to the VSC Group treasury. VSC Group treasury invests surplus cash in time deposits, marketable securities, and choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts. At the reporting date, the VSC Group held cash and cash equivalents of approximately HK$370,528,000 (2013: HK$460,403,000) (Note 28) and trade and bill receivables of approximately HK$405,355,000 (2013: HK$423,490,000) (Note 26) that are expected to readily generate cash inflows for managing liquidity risk.

The table below analyses the VSC Group's and the company's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Repayment on demand	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Consolidated					
At 31st March 2014					
Trade and bill payables	—	80,028	—	—	80,028
Derivative financial instruments	—	912	—	—	912
Accrued liabilities and other payables	—	55,406	4,990	—	60,396
Borrowings	3,768	1,006,243	—	561,595	1,571,606
Interest payable	45	43,799	25,369	60,405	129,618
	3,813	1,186,388	30,359	622,000	1,842,560
At 31st March 2013					
Trade and bill payables	—	340,141	—	—	340,141
Accrued liabilities and other payables	—	43,856	—	—	43,856
Borrowings	6,118	574,912	—	—	581,030
Interest payable	115	16,038	—	—	16,153
	6,233	974,947	—	—	981,180

	Repayment on demand	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Company					
At 31st March 2014					
Accrued liabilities and other payables	—	103	—	—	103
At 31st March 2013					
Accrued liabilities and other payables	—	70	—	—	70

The following table summarises the maturity analysis of loans with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using contractual rates. Taking into account the VSC Group's financial position, the directors do not consider that it is probable that the bank will exercise its discretion to demand immediate repayment. The directors believe that such term loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Consolidated				
At 31st March 2014				
Term loans subject to repayment on demand clause	2,373	1,395	—	3,768
Interest payable	37	8	—	45
	2,410	1,403	—	3,813
At 31st March 2013				
Term loans subject to repayment on demand clause	2,350	2,380	1,388	6,118
Interest payable	66	40	9	115
	2,416	2,420	1,397	6,233

3.2. Capital risk management

The VSC Group's objectives when managing capital are to safeguard the VSC Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the VSC Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the VSC Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less pledged bank deposits and cash and cash equivalents. Total capital is calculated as equity (excluding non-controlling interests), as shown in the consolidated statement of financial position, plus net debt.

The gearing ratios at 31st March 2014 and at 31st March 2013 were as follows:

	2014 *HK$'000*	2013 *HK$'000*
Total borrowings *(Note 31)*	1,571,606	581,030
Less: Cash and cash equivalents and pledged bank deposits *(Note 28)*	(409,986)	(557,831)
Net debt	1,161,620	23,199
Total equity (excluding non-controlling interests)	781,192	715,124
Total capital	1,942,812	738,323
Gearing ratio	60%	3%

The increase in the gearing ratio during the year resulted primarily form borrowing obtained as part of the consideration of the acquisition of a subsidiary (Note 36).

3.3. Fair value estimation

The table below analyses the VSC Group's financial instruments carried at fair value as at 31st March 2014, by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the VSC Group's assets and liabilities that are measured at fair value at 31st March 2014. See Note 16 for disclosures of the investment properties that are measured at fair value.

	Level 1 *HK$'000*	Level 2 *HK$'000*	Level 3 *HK$'000*	Total *HK$'000*
Assets — Consolidated				
Available-for-sale financial asset — shares listed on The Stock Exchange of Hong Kong Limited	283	—	—	283
Liabilities — Consolidated				
Forward foreign exchange contracts	—	912	—	912

The following table presents the VSC Group's assets and liabilities that are measured at fair value at 31st March 2013.

	Level 1	Level 2	Level 3	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Assets — Consolidated				
Available-for-sale financial asset — shares listed on The Stock Exchange of Hong Kong Limited	255	—	—	255
Forward foreign exchange contracts	—	1,059	—	1,059
	255	1,059	—	1,314

There were no transfers among levels 1, 2 and 3 during the year.

(a) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily equity investment classified as available-for-sale.

(b) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of forward foreign exchange contracts i s determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

All the resulting fair value estimates are included in level 2.

4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The VSC Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Onerous contracts

As at 31st March 2014, the VSC Group had committed sales orders which exceeded the aggregate amount of on-hand inventories and committed purchase orders. If the cost of certain future purchases to fulfil these sales orders exceeds the contracted selling prices of the sales orders, a provision for onerous contracts would be made. In estimating the amount by which the cost of purchases are expected to exceed sales prices of committed sales orders, management takes into account the cost of onhand inventory, the cost of committed purchase orders and the forecast market price of future purchases where this can be reliably estimated. For the sales orders which the management expects to fulfil after 30th September 2014, no provision has been made since management considers the loss, if any, arising from fulfilling such orders, cannot be reliably estimated at this time.

As at 31st March 2014, no provision for onerous contract was recognised by the VSC Group (2013: HK$4,000,000).

(b) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and variable selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of changes in customer demand and competitor actions in response to severe industry cycle. Management reassesses the estimations at each reporting date. In current year, the provision for inventory has been decreased by HK$3,281,000 as a result of change in estimation of net realisable value for inventory aged over one year.

(c) Trade and other receivables

The VSC Group's management determines the provision for impairment of trade and other receivables based on an assessment of the recoverability of the receivables. This assessment is based on the credit history of its customers and other debtors and the current market condition. Management reassesses the provision at each reporting date.

(d) Income taxes and deferred income tax

The VSC Group is mainly subject to income taxes in Hong Kong and Mainland China. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The VSC Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised when management considers it is likely that future taxable profits will be available against which the temporary differences or tax losses can be utilised. When the expectations are different from the original estimates, such differences will impact the recognition of deferred income tax assets and income tax charges in the period in which such estimates have been changed.

(e) Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The VSC Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each reporting period.

(f) Estimated impairment of goodwill

The VSC Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2.7. The recoverable amounts of CGUs have been determined based on value in-use calculations. These calculations require the use of estimates (Note 18).

(g) Impairment of loan and other receivables and amounts due from associates

The VSC Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired, in accordance with the accounting policy stated in Note 2.12. The recoverable amounts of CGUs have been determined based on value-in-use calculations. These calculations require the use of estimates.

For the year ended 31st March 2014, the VSC Group recognised provisions for impairment for loan and other receivables and amounts due from associates of approximately HK$62,939,000 (2013: HK$8,000,000) (Note 7).

(h) Fair value of investment properties

The fair value of investment properties is determined by using valuation technique. Details of the judgement and assumptions have been disclosed in Note 16.

5. Revenue and segment information

The VSC Group's revenue consists of the following:

	2014	**2013**
	HK$'000	*HK$'000*
Sales of goods	3,825,076	3,718,563
Service income	10,917	41,601
Rental income	13,313	456
Total revenue	3,849,306	3,760,620

The VSC Group's businesses are managed according to the nature of their operations and the products and services they provide.

Management has determined the operating segments based on the reports reviewed by the VSC Group's CODM that are used to make strategic decisions. The CODM considers the VSC Group operates predominantly in four operating segments:

(i) Steel distribution;

(ii) Building & design solutions;

(iii) Engineering plastics; and

(iv) Property investment.

The VSC Group's CODM assesses the performance of operating segments based on a measure of profit before income tax. This measurement basis excludes the effects of non-recurring expenditure from the operating segments, such as legal expenses and impairments, when the impairment is the result of an isolated, non-recurring event.

The revenue from external parties reported to the CODM is measured in a manner consistent with that in the consolidated financial statements.

Analysis of the VSC Group's results by business segment for the year ended 31st March 2014 is as follows:

	Steel distribution *HK$'000*	Building & design solutions *HK$'000*	Engineering plastics *HK$'000*	Property investment *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
External revenue	2,929,183	487,051	419,326	13,746	—	3,849,306
Operating profit/(loss)	176,686	8,974	2,693	63,216	(137,158)	114,411
Finance income	1,550	725	113	202	27	2,617
Finance costs	(18,009)	(6,027)	(997)	(12,182)	(37)	(37,252)
Share of profit of investments accounted for using equity method — net	119	—	—	81,648	(12,187)	69,580
Profit/(loss) before income tax	160,346	3,672	1,809	132,884	(149,355)	149,356
Other gains — net	8,684	1,821	2,291	276	234	13,306
Fair value gain on investment properties	—	—	—	73,022	—	73,022
Depreciation and amortisation	(1,332)	(2,573)	(105)	(203)	(1,674)	(5,887)
Provision for impairment of amounts due from associates, loan and other receivables	—	(1,180)	—	—	(61,759)	(62,939)
Income tax (expense)/credit	(28,565)	(6,910)	(524)	(19,513)	10,975	(44,537)

Analysis of the VSC Group's results by business segment for the year ended 31st March 2013 is as follows:

	Steel distribution	**Building & design solutions**	**Engineering plastics**	**Property investment**	**Unallocated**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
External revenue	2,765,346	490,524	472,170	32,580	—	3,760,620
Operating profit/(loss)	173,764	31,560	6,067	4,932	(98,950)	117,373
Finance income	1,161	90	149	5	7	1,412
Finance costs	(14,025)	(5,829)	(1,396)	(80)	(169)	(21,499)
Share of profit of investments accounted for using equity method — net	(289)	—	—	4,424	(606)	3,529
Profit/(loss) before income tax	160,611	25,821	4,820	9,281	(99,718)	100,815
Other gains/(losses) — net	4,293	681	672	(41)	(5,071)	534
Depreciation and amortisation	(2,209)	(1,762)	(72)	(5)	(2,300)	(6,348)
Provision for impairment of amount due from an associate	—	—	—	—	(8,000)	(8,000)
Income tax (expense)/credit	(36,385)	(5,406)	(802)	(4,804)	18,042	(29,355)

The Company is domiciled in Hong Kong. Analysis of the VSC Group's revenue by geographical market is as follows:

	2014	**2013**
	HK$'000	*HK$'000*
Revenue		
Hong Kong	2,442,020	2,235,459
Mainland China	1,407,286	1,525,161
Total revenue	3,849,306	3,760,620

6. Other gains – net

	2014	**2013**
	HK$'000	*HK$'000*
Write back of provision for/(provision for) onerous contracts *(Note 30)*	4,000	(4,000)
Net fair value change on forward foreign exchange contracts held for trading	(1,971)	430
Loss on disposal of investment in a subsidiary *(Note 35(c))*	—	(2,448)
Gain on deemed disposal of investment in a subsidiary	—	1,354
Realised loss on steel future contracts	—	(843)
Net exchange gain	7,936	3,206
Sundry income	3,341	2,835
	13,306	534

7. Expenses by nature

Expenses included in "cost of sales", "selling and distribution expenses" and "general and administrative expenses" are analysed as follows:

	2014	**2013**
	HK$'000	*HK$'000*
Cost of finished goods sold	3,477,956	3,407,400
Provision/(write-back of provision) for impairment of inventories	1,307	(1,842)
Depreciation of property, plant and equipment *(Note 15)*	4,658	5,553
Gain on disposals of property, plant and equipment *(Note 35(b))*	(252)	(566)
Amortisation of intangible assets and land use rights	1,229	795
Employee benefit expenses *(Note 8)*	111,654	120,709
Operating lease rental expenses in respect of retail outlets, offices and warehouses	31,710	24,675
Provision for impairment of trade receivables, net *(Note 26(a))*	1,883	2,212
Provision for impairment of amounts due from associates	30,759	8,000
Provision for impairment of loan receivable *(Note 26(b))*	19,000	—
Provision for impairment of other receivables *(Note 27)*	13,180	—
Auditor's remuneration	2,100	1,960
Legal and professional fees	34,232	7,100
Freight charges	40,668	22,983
Others	51,139	44,802
Total cost of sales, selling and distribution expenses and general and administrative expenses	3,821,223	3,643,781

8. Employee benefit expenses (including directors' emoluments)

	2014	**2013**
	HK$'000	*HK$'000*
Salaries and allowances	78,138	80,398
Bonus	17,037	24,203
Pension costs — defined contribution plans	7,888	7,322
Share option scheme — value of services	763	2,748
Welfare and benefits	7,828	6,038
	111,654	120,709

The VSC Group maintains two defined contribution pension schemes for its employees in Hong Kong, the ORSO Scheme and the MPF Scheme. The assets of these schemes are held separately from those of the VSC Group under independently administered funds.

Under the ORSO Scheme, each of the VSC Group and its employees make monthly contribution to the scheme at 5% of the employees' salary. The unvested benefits of employees who have terminated employment could be utilised by the VSC Group to reduce its future contributions.

Under the MPF Scheme, each of the VSC Group and its employees make monthly contributions to the scheme at 5% of the employee's relevant income, as defined in the Hong Kong Mandatory Provident Fund Scheme Ordinance. Both the VSC Group's and the employee's contributions are subject to a cap of HK$1,250 per month. The contributions are fully and immediately vested for the employees.

As stipulated by rules and regulations in Mainland China, the VSC Group contributes to state-sponsored retirement plans for employees of its subsidiaries established in Mainland China. The employees are entitled to retirement pension calculated with reference to their basic salaries on retirement and their length of service in accordance with the relevant government regulations. The VSC Group has no further obligations for the actual payment of pensions or post-retirement benefits beyond these contributions. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees.

During the year ended 31st March 2014, the aggregate amount of VSC Group's contributions to the aforementioned pension schemes was approximately HK$7,888,000 (2013: HK$7,322,000), net of forfeited contributions of approximately HK$131,000 (2013: HK$240,000). As at 31st March 2014, there is no unutilised forfeited contribution which could be utilised to reduce future contributions of the VSC Group (2013: Nil).

9. Directors' and senior management's emoluments

(a) Directors' emoluments

The remuneration of every director for the year ended 31st March 2014 is set out below:

	Fees	Salaries and allowances	Discretionary bonus[i]	Employer's contribution to pension scheme	Share option scheme — value of services	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Chief executives and executive directors						
Mr. Yao Cho Fai Andrew	—	1,938	1,950	15	—	3,903
Mr. Frank Muñoz	—	4,764	1,156	15	242	6,177
Non-executive directors						
Mr. Dong Sai Ming Fernando	429	—	71	15	—	515
Mr. Tam King Ching Kenny	225	—	—	—	—	225
Mr. Xu Lin Bao	207	—	—	—	—	207
Mr. Tse Lung Wa Teddy	830	—	—	—	342	1,172
Mr. Yeung Wing Sun Mike (appointed on 25th March 2014)	—	—	—	—	—	—
	1,691	6,702	3,177	45	584	12,199

The remuneration of every director for the year ended 31st March 2013 is set out below:

	Fees *HK$'000*	Salaries and allowances *HK$'000*	Discretionary bonus[i] *HK$'000*	Employer's contribution to pension scheme *HK$'000*	Share option scheme — value of services *HK$'000*	Total *HK$'000*
Chief executives and executive directors						
Mr. Yao Cho Fai Andrew (resigned from chief executive officer on 1st November 2012 and remained as an executive director)	—	1,963	100	15	—	2,078
Mr. Frank Muñoz (appointed as chief executive officer and re-designated from a non-executive director to an executive director on 1st November 2012)	—	1,941	780	6	793	3,520
Executive director						
Mr. Kern Lim (resigned on 31st December 2012)	—	2,645	1,600	47	1,376	5,668
Non-executive directors						
Mr. Dong Sai Ming Fernando (re-designated from an executive director to a non-executive director on 17th August 2012)	—	429	36	15	—	480
Mr. Frank Muñoz (re-designated from a non-executive director to an executive director on 1st November 2012)	275	—	—	—	—	275
Mr. Tam King Ching Kenny	225	—	—	—	—	225
Mr. Xu Lin Bao	207	—	—	—	—	207
Mr. Harold Richard Kahler (retired on 17th August 2012)	263	—	—	—	—	263
Mr. Tse Lung Wa Teddy (appointed on 17th August 2012)	112	—	—	—	—	112
	1,082	6,978	2,516	83	2,169	12,828

Note:

(i) The executive directors are entitled to discretionary bonuses which are determined with reference to the financial performance of different business units of the VSC Group.

The share option scheme – value of services represent charges to the consolidated income statement of the fair value of the share options under the share option scheme measured at the respective grant dates, regardless of whether the share options would be exercised or not.

No director waived any emolument during the year. No incentive payment (2013: Nil) as an inducement for joining the VSC Group or compensation for loss of office was paid to any director during the year.

(b) Five highest paid individuals

The five individuals with highest emoluments in the VSC Group include two directors (2013: three) whose emoluments are reflected in the analysis presented in Note 9(a) above. The emoluments paid/payable to the remaining three (2013: two) individuals during the year are as follows:

	2014	**2013**
	HK$'000	*HK$'000*
Salaries and allowances	4,474	3,425
Bonus	953	1,615
	5,427	5,040

The emolument fell within the following bands:

	Number of individuals	
	2014	**2013**
— HK$1,500,001 to HK$2,000,000	3	1
— HK$2,500,001 to HK$3,500,000	—	1
	3	2

No emoluments were paid/payable to the five highest paid individuals as an inducement to join the VSC Group or as compensation for loss of office during the year.

10. Finance income and costs

	2014	2013
	HK$'000	*HK$'000*
Finance income		
Interest income:		
— short-term bank deposits	2,617	1,412
Finance costs		
Interest expenses:		
— bank borrowings	(31,595)	(18,073)
Bank charges	(5,657)	(3,426)
	(37,252)	(21,499)
Net finance costs	(34,635)	(20,087)

11. Income tax expense

The Company is exempted from taxation in Bermuda until 2016.

Hong Kong profits tax has been provided at the rate of 16.5% (2013: 16.5%) on the estimated assessable profit arising in or derived from Hong Kong.

During the year, subsidiaries established in Mainland China are subject to China corporate income tax at 25% (2013: 25%).

The amount of income tax expense recorded i n the consolidated income statement represents:

	2014	2013
	HK$'000	*HK$'000*
Current income tax		
— Hong Kong profits tax	15,380	4,125
— China corporate income tax	9,653	9,995
Deferred income tax *(Note 22)*	18,969	15,050
Under provision in prior years	535	185
	44,537	29,355

The tax on the VSC Group's profit before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities is as follows:

	2014	2013
	HK$'000	*HK$'000*
Profit before income tax	149,356	100,815
Tax calculated at domestic tax rates applicable to profit in the respective countries	36,942	30,017
Income not subject to tax	(543)	(1,155)
Expenses not deductible for tax purposes	5,595	700
Tax losses not recognised as deferred income tax assets	1,675	19
Withholding tax on Mainland China unremitted earnings	333	(411)
Under provision in prior years	535	185
Income tax expense	44,537	29,355

For the year ended 31st March 2014, the weighted average applicable tax rate was 24.7% (2013: 29.8%). The decrease is due to the impact of the decrease in profit of Mainland China's subsidiaries.

12. Profit attributable to equity holders of the Company

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of a profit of approximately HK$31,181,000 (2013: HK$13,692,000).

13. Dividends

	2014	2013
	HK$'000	*HK$'000*
Interim dividend of HK3.3 cents (2013: 2.3 cents) per ordinary share	13,759	9,525
Proposed final dividend of HK4.15 cents (2013: HK2.9 cents) per ordinary share	17,335	12,000
	31,094	21,525

A final dividend for the year ended 31st March 2014 of HK4.15 cents (2013: HK2.9 cents) per ordinary share, totalling approximately HK$17,335,000 (2013: HK$12,000,000) has been recommended by the Board for approval at the forthcoming Annual General Meeting of the Company. The proposed final dividend has not been dealt with as dividend payable as at 31st March 2014.

The actual final dividend for the year ended 31st March 2013 was approximately HK$12,092,000 due to 3,915,000 additional shares issued upon exercise of share options and cancellation of 726,000 shares repurchased during the period from 21st June 2013 to 23rd August 2013, the last closure date of the register of the members for ascertaining the entitlement to the final dividend, and was paid out on 6th September 2013.

The actual interim dividend for the six months ended 30th September 2013 was approximately HK$13,785,000 due to 800,000 additional shares issued upon exercise of share options during the period from 20th November 2013 to 13th December 2013, the last closure date of the register of the members for ascertaining the entitlement to the interim dividend, and was paid out on 15th January 2014.

14. Earnings per ordinary share

(a) Basic

Basic earnings per ordinary share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2014	**2013**
Profit attributable to equity holders of the Company *(HK$'000)*	103,708	71,600
Weighted average number of ordinary shares in issue *('000)*	416,075	413,984
Basic earnings per ordinary share *(HK cents)*	24.93	17.30

(b) Diluted

Diluted earnings per ordinary share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company's dilutive potential ordinary shares is arising from share options, for which a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2014	**2013**
Profit attributable to equity holders of the Company and used to determine diluted earnings per ordinary share *(HK$'000)*	103,708	71,600
Weighted average number of ordinary shares in issue *('000)*	416,075	413,984
Adjustment for share options *('000)*	17,578	3,742
Weighted average number of ordinary shares for diluted earnings per ordinary share *('000)*	433,653	417,726
Diluted earnings per ordinary share *(HK cents)*	23.91	17.14

15. Property, plant and equipment

	Consolidated				
	Buildings	Leasehold improvements, furniture and equipment	Machinery	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st April 2012					
Cost	4,433	40,407	5,574	10,575	60,989
Accumulated depreciation	(913)	(33,914)	(5,437)	(5,370)	(45,634)
Net book amount	3,520	6,493	137	5,205	15,355
Year ended 31st March 2013					
Opening net book amount	3,520	6,493	137	5,205	15,355
Additions	3,698	3,774	13,532	3,112	24,116
Attributable to disposal of a subsidiary	(3,680)	(1,328)	(12,539)	(1,584)	(19,131)
Disposals	—	(18)	—	(19)	(37)
Depreciation	(135)	(2,739)	(716)	(1,963)	(5,553)
Exchange differences	—	6	—	11	17
Closing net book amount	3,403	6,188	414	4,762	14,767
At 31st March 2013 and 1st April 2013					
Cost	4,434	42,046	5,919	11,614	64,013
Accumulated depreciation	(1,031)	(35,858)	(5,505)	(6,852)	(49,246)
Net book amount	3,403	6,188	414	4,762	14,767
Year ended 31st March 2014					
Opening net book amount	3,403	6,188	414	4,762	14,767
Additions	—	4,554	280	—	4,834
Disposals	—	(50)	—	(64)	(114)
Depreciation	(118)	(2,518)	(104)	(1,918)	(4,658)
Exchange differences	4	52	—	69	125
Closing net book amount	3,289	8,226	590	2,849	14,954
At 31st March 2014					
Cost	4,442	46,324	6,187	10,515	67,468
Accumulated depreciation	(1,153)	(38,098)	(5,597)	(7,666)	(52,514)
Net book amount	3,289	8,226	590	2,849	14,954

Depreciation expense is charged to "general and administrative expenses" in the consolidated income statement during the year.

16. Investment properties

	Consolidated 2014 *HK$'000*	2013 *HK$'000*
At fair value		
At 1st April	22,000	22,000
Acquisition *(Note 36(a))*	920,449	—
Fair value change	73,022	—
Exchange differences	(9,891)	—
At 31st March	1,005,580	22,000

Amount recognised in consolidated income statement for investment properties as follows:

	Consolidated 2014 *HK$'000*	2013 *HK$'000*
Rental income	13,313	456
Direct operating expenses from properties that generated rental income	(2,011)	(72)
	11,302	384

Details of the geographical locations and tenure are as follows:

	Consolidated 2014 *HK$'000*	2013 *HK$'000*
In Hong Kong		
— long-term leases of between 10 and 50 years	22,000	22,000
In Mainland China		
— long-term leases of between 10 and 50 years	983,580	—
	1,005,580	22,000

As at 31st March 2014, investment properties of approximately HK$1,005,580,000 (2013: HK$22,000,000) were stated at open market value as determined by the directors based on valuations assessed by an independent, professional qualified valuers.

As at 31st March 2014, investment properties of approximately HK$1,005,580,000 (2013: HK$22,000,000) were pledged as collaterals for certain of the VSC Group's bank borrowings (Note 31).

Independent valuations of the VSC Group's investment properties were performed by the valuers, Knight Frank Petty Limited and Jointgoal Surveyors Limited, to determine the fair value of the investment properties as at 31st March 2014 (2013: Jointgoal Surveyors Limited). The fair value gains or losses are recognised in the consolidated income statement. The following table analyses the investment properties carried at fair value, by valuation method.

Fair value hierarchy

Description	Fair value measurements at 31st March 2014 using Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	HK$'000	*HK$'000*	*HK$'000*
Recurring fair value measurements			
— Residential unit — Hong Kong	—	—	22,000
— Commercial units — Mainland China	—	—	983,580
	—	—	1,005,580

Description	Fair value measurements at 31st March 2013 using Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	HK$'000	*HK$'000*	*HK$'000*
Recurring fair value measurements			
— Residential unit — Hong Kong	—	—	22,000

Fair value measurement using significant unobservable inputs (Level 3)

	Investment properties Hong Kong	Investment properties Mainland China	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1st April 2013	22,000	—	22,000
Additions	—	920,449	920,449
Gains recognised in consolidated income statement	—	73,022	73,022
Exchange difference	—	(9,891)	(9,891)
At 31st March 2014	22,000	983,580	1,005,580
Total unrealised gains for the year included in consolidated income statement for asset held at 31st March 2014	—	73,022	73,022

	Investment property Hong Kong	Investment property Mainland China	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1st April 2012 and 31st March 2013	22,000	—	22,000
Total unrealised gains for the year included in consolidated income statement for asset held at 31st March 2013	—	—	—

Information about fair value measurements using significant unobservable input (Level 3) as follows:

Description	**Fair value** *(HK$'000)*	**Valuation technique**	**Unobservable inputs**	**Range of unobservable inputs (weighted average)**	**Relationship of unobservable inputs to fair value**
As at 31st March 2014					
Investment property — Hong Kong	22,000	Direct comparison approach	Comparable sales evidence	HK$20,000,000 to HK$25,000,000 (HK$22,000,000)	The higher the comparable market price, the higher the fair value
Investment property — Mainland China	983,580	Income capitalisation approach	Adjusted market yield (office, retail)	Office 4.50% to 6.50% (5.75%) Retail 6.00% to 9.00%(7.75%)	The higher the weighted average adjusted market yield, the higher the fair value
As at 31st March 2013					
Investment property — Hong Kong	22,000	Direct comparison approach	Comparable sales evidence	HK$20,000,000 to HK$25,000,000 (HK$22,000,000)	The higher the comparable market price, the higher the fair value

Valuation processes of the investment properties

The VSC Group engages external, independent and qualified valuers to determine the fair value of the investment properties at the end of every financial year. As at 31st March 2014, the fair values of the investment properties were determined by Knight Frank Petty Limited and Jointgoal Surveyors Limited (2013: Jointgoal Surveyors Limited).

The main Level 3 input used by the VSC Group is derived and evaluated as follows:

Comparable sales evidence

The comparable sales evidence are selected by referring to recent sales transactions within the locations and are considered comparable to the property in term of factors such as location, size, view and other factors.

Adjusted market yield

The adjusted market yield has been determined by making reference to recent sales and rental transactions with adjustments to reflect the differences between the comparables and the investment property, in terms of location, building quality and other factors.

17. Land use rights

The VSC Group's interests in land use rights represent prepaid operating lease payments and their net book amounts are analysed as follows:

	Consolidated	
	2014	**2013**
	HK$'000	*HK$'000*
At 1st April	10,324	10,526
Amortisation	(201)	(202)
At 31st March	10,123	10,324

Details of the geographical locations and tenure are as follows:

	Consolidated	
	2014	**2013**
	HK$'000	*HK$'000*
In Hong Kong		
— long-term leases of over 50 years	96	96
In Mainland China		
— long-term leases of over 50 years	10,027	10,228
	10,123	10,324

Amortisation expense of land use rights has been included in "general and administrative expenses" in the consolidated income statement.

18. Intangible assets

	Consolidated			
	Goodwill	**Distribution rights**	**Use right of car park**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1st April 2012				
Cost	6,708	4,389	—	11,097
Accumulated amortisation	—	(438)	—	(438)
Net book amount	6,708	3,951	—	10,659
Year ended 31st March 2013				
Opening net book amount	6,708	3,951	—	10,659
Additions *(Note 36(a))*	4,263	3,778	—	8,041
Amortisation	—	(593)	—	(593)
Exchange differences	22	7	—	29
Closing net book amount	10,993	7,143	—	18,136
At 31st March 2013 and 1st April 2013				
Cost	10,993	8,181	—	19,174
Accumulated amortisation	—	(1,038)	—	(1,038)
Net book amount	10,993	7,143	—	18,136
Year ended 31st March 2014				
Opening net book amount	10,993	7,143	—	18,136
Additions *(Note 36(a))*	57,743	—	12,748	70,491
Amortisation	—	(833)	(195)	(1,028)
Exchange differences	(415)	138	(139)	(416)
Closing net book amount	68,321	6,448	12,414	87,183
At 31st March 2014				
Cost	68,321	8,339	12,610	89,270
Accumulated amortisation	—	(1,891)	(196)	(2,087)
Net book amount	68,321	6,448	12,414	87,183

Amortisation expense of distribution rights and use right of car park has been is included in the "general and administrative expenses" in the consolidated income statement.

Impairment tests for goodwill

Goodwill is allocated to the VSC Group's CGU as follows:

	2014	2013
	HK$'000	*HK$'000*
Building & design solutions ("BDS")		
— Wuhan ("Wuhan BDS")	6,861	6,730
— Changsha ("Changsha BDS")	4,345	4,263
Investment property business in Shanghai	57,115	—
	68,321	10,993

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering the budget period.

Key assumptions used for value-in-use calculations:

	Wuhan BDS	Changsha BDS
Growth rate of revenue	5%-20%	10%-15%
Post-tax discount rate	18%	18%
Gross profit margin	23%	13%
Operating profit margin	6%	1%

	Investment property business
Growth rate of revenue	5%-10%
Post-tax discount rate	15%

Management determined the average annual growth rate of revenue based on past performance and its expectations of market development. The discount rates used reflect specific risks relating to the relevant segments.

In Wuhan BDS, the recoverable amount calculated based on value in use exceeded the carrying value. Growth rate of revenue in Wuhan BDS falls to 5%-11% would remove the remaining headroom.

In Changsha BDS, the recoverable amount calculated based on value in use exceeded the carrying value. Growth rate of revenue in Changsha BDS falls to 8%-10% would remove the remaining headroom.

For property investment business, the recoverable amount calculated based on value in use exceeded the carrying value. No reasonable possible range in key assumptions on which management has based its determination of recoverable amount would cause the carrying amount to excess its recoverable amount.

19. Financial instruments by category

	Consolidated Loan and receivables *HK$'000*	Available-for-sale *HK$'000*	Total *HK$'000*
At 31st March 2014			
Assets as per statement of financial position			
Available-for-sale financial asset	—	283	283
Amounts due from associates	1,197	—	1,197
Trade and other receivables (excluding prepayments)	436,228	—	436,228
Cash and cash equivalents and pledged bank deposits	409,986	—	409,986
Total	847,411	283	847,694

	Consolidated Liabilities at fair value through the profit & loss *HK$'000*	Other financial liabilities at amortised cost *HK$'000*	Total *HK$'000*
At 31st March 2014			
Liabilities as per statement of financial position			
Borrowings	—	1,571,606	1,571,606
Derivative financial instruments	912	—	912
Trade and bill payables	—	80,028	80,028
Other payables (excluding non-financial liabilities)	—	6,874	6,874
Total	912	1,658,508	1,659,420

	Consolidated Loan and receivables *HK$'000*	Assets at fair value through the profit & loss *HK$'000*	Available-for-sale *HK$'000*	Total *HK$'000*
At 31st March 2013				
Assets as per statement of financial position				
Available-for-sale financial asset	—	—	255	255
Derivative financial instruments	—	1,059	—	1,059
Amounts due from associates	30,970	—	—	30,970
Loan receivable	19,000	—	—	19,000
Trade and other receivables (excluding prepayments)	443,908	—	—	443,908
Cash and cash equivalents and pledged bank deposits	557,831	—	—	557,831
Total	1,051,709	1,059	255	1,053,023

	Consolidated Other financial liabilities at amortised cost
	HK$'000
At 31st March 2013	
Liabilities as per statement of financial position	
Borrowings	581,030
Trade and bill payables	340,141
Total	921,171

	Company Loan and receivables	
	2014	**2013**
	HK$'000	*HK$'000*
Assets as per statement of financial position		
Cash and cash equivalents and pledged bank deposits	10,834	20,978
Amounts due from subsidiaries	460,536	442,305
	471,370	463,283

20. Investments in subsidiaries

	Company	
	2014	**2013**
	HK$'000	*HK$'000*
Unlisted shares, at cost	72,412	72,238
Amounts due from subsidiaries	460,536	442,305
	532,948	514,543

The amounts due from subsidiaries are unsecured, non-interest bearing, denominated in HK$ without predetermined repayment terms. The carrying amounts approximated to their fair values and were not impaired as at 31st March 2013 and 2014.

Details of the principal subsidiaries as at 31st March 2013 and 2014 are as follows:

Name	Place of incorporation/ establishment and kind of legal entity	Issued and fully paid share capital/ registered capital	Percentage of equity interest attributable to the VSC Group *(i)* 2014	2013	Principal activities and place of operations
Eastlink International Investment Inc.	British Virgin Islands, limited liability company	US$1	100%	—	Property investment in Mainland China
Fit Team Holdings Limited	British Virgin Islands, limited liability company	US$10,050,002	100%	100%	Investment holding in Hong Kong
Leisure Plus Building Products (Shenzhen) Co., Ltd. *(iii)*	Mainland China, limited liability company	HK$10,000,000	100%	100%	Trading of sanitary wares in Mainland China

Name	Place of incorporation/ establishment and kind of legal entity	Issued and fully paid share capital/ registered capital	Percentage of equity interest attributable to the VSC Group *(i)* 2014	2013	Principal activities and place of operations
Leisure Plus International Trading (Shanghai) Co., Ltd. *(iv)*	Mainland China, limited liability company	US$6,500,000	100%	100%	Trading of sanitary wares in Mainland China
Leisure Plus Trading (Shenzhen) Co., Ltd. *(iii)*	Mainland China, limited liability company	US$5,000,000	100%	100%	Trading of sanitary wares in Mainland China
SC Metal Recycling Investments Limited	Hong Kong, limited liability company	HK$1	100%	100%	Investment holding in Hong Kong
Shanghai Bao Shun Chang International Trading Co., Ltd. *(v)*	Mainland China, limited liability company	US$2,067,500	100%	66.7%	Stockholding and trading of steel in Mainland China
Tomahawk Capital Limited	Hong Kong, limited liability company	HK$10,000	100%	100%	Finance business in Hong Kong
Van Shung Chong (B.V.I.) Limited *(i)*	British Virgin Islands, limited liability company	US$6	100%	100%	Investment holding in Hong Kong
Van Shung Chong Hong Limited	Hong Kong, limited liability company	HK$2,000 ordinary HK$10,000,000 non-voting deferred *(ii)*	100%	100%	Provision of management services in Hong Kong
Vantage Godown Company Limited	Hong Kong, limited liability company	HK$200,000	100%	100%	Provision of warehousing services in Hong Kong
VSC (China) Investments Limited	Hong Kong, limited liability company	HK$2	100%	100%	Investment holding in Hong Kong
VSC Building Products Company Limited	Hong Kong, limited liability company	HK$2	100%	100%	Trading of sanitary wares, kitchen cabinets and home furniture and kitchen cabinet installation in Hong Kong
VSC Plastics Company Limited	Hong Kong, limited liability company	HK$2	100%	100%	Trading of engineering plastics in Hong Kong
VSC Steel Company Limited	Hong Kong, limited liability company	HK$38,000 ordinary HK$20,000,000 non-voting deferred *(ii)*	100%	100%	Stockholding and trading of steel in Hong Kong
VSC Steel (Shanghai) Co., Ltd. *(iv)*	Mainland China, limited liability company	US$7,280,000	100%	100%	Stockholding and trading of steel in Mainland China
VSC Trading (Shenzhen) Co., Ltd. (vii)	Mainland China, limited liability company	HK$20,000,000	100%	100%	Trading of engineering plastics in Mainland China
武漢三金建材有限公司 *(viii)*	Mainland China, limited liability company	RMB10,000,000	97%	97%	Trading of sanitary wares in Mainland China
上海新施房地產經紀有限公司 *(ix)*	Mainland China, limited liability company	US$500,000	100%	100%	Property agent in Mainland China
長沙錦派建材有限公司 *(vi)*	Mainland China, limited liability company	RMB 3,000,000	100%	100%	Trading of sanitary wares in Mainland China

Notes:

(i) The shares of Van Shung Chong (B.V.I.) Limited are held directly by the Company. The shares of other subsidiaries are held indirectly.

(ii) These non-voting deferred shares are owned by the VSC Group. The non-voting deferred shares have no voting rights, are not entitled to any distributions upon winding up unless a sum of HK$2,000,000,000 per share has been distributed to the holders of ordinary shares for Van Shung Chong Hong Limited or a sum of HK$10,000,000,000 has been distributed to the holders of ordinary shares for VSC Steel Company Limited.

(iii) Wholly foreign owned enterprises established in Mainland China with an operating period of 20 years to 2028.

(iv) Wholly foreign owned enterprises established in Mainland China with an operating period of 20 years to 2023.

(v) Wholly owned enterprises established in Mainland China with an operating period of 10 years to 2023.

(vi) Wholly foreign owned enterprise established in Mainland China with an operating period of 50 years to 2062.

(vii) Wholly foreign owned enterprise established in Mainland China with an operating period of 20 years to 2024.

(viii) Equity joint venture established in Mainland China with an operating period of 10 years to 2021.

(ix) Wholly foreign owned enterprise established in Mainland China with an operating period of 10 years to 2020.

21. Investments in associates/Amounts due from associates

	Consolidated	
	2014	**2013**
	HK$'000	*HK$'000*
Investments in associates	237,179	182,592
Amounts due from associates		
— Current	39,956	32,773
— Non-current	—	6,197
	39,956	38,970
Less: Provision for impairment	(38,759)	(8,000)
	1,197	30,970
Less: Non-current	—	(6,197)
Current	1,197	24,773

The amounts due from associates are unsecured, non-interest bearing and without pre-determined repayment terms. The carrying amounts approximated to their fair values.

Movements on the provision for impairment of amounts due from associates are as follows:

	Consolidated	
	2014	**2013**
	HK$'000	*HK$'000*
At 1st April	8,000	—
Provision for impairment recognised in the consolidated income statement	30,759	8,000
At 31st March	38,759	8,000

Provision for impairment of HK$38,759,000 (2013: HK$8,000,000) has been made due to the recoverable amounts of amounts due from associates are below their carrying values.

The carrying amounts due from associates were denominated in the following currencies:

	Consolidated	
	2014	**2013**
	HK$'000	*HK$'000*
HK$	26,605	22,892
RMB	13,351	16,078
	39,956	38,970

The movements of investments in associates are as follows:

	Consolidated	
	2014	**2013**
	HK$'000	*HK$'000*
At 1st April	182,592	169,552
Acquisition of interest in an associate	—	11,399
Share of profit of investments accounted for using equity method — net *(Note)*	69,580	3,529
Dividend paid	—	(2,107)
Realisation of currency translation differences of an associate	(18,360)	—
Exchange differences	3,367	219
At 31st March	237,179	182,592

Note: On 24th January 2014, Shanghai Property (No. 1) Holdings SRL, an associate of the VSC Group, entered into a sale and purchase agreement with an independent third party, whereby Shanghai Property (No. 1) Holdings SRL agreed to sell 100% of the equity interest of its subsidiary, Changyu (Shanghai) Real Estate Management Company Limited at an aggregate consideration of approximately RMB652,788,000 (equivalent t o approximately HK$840,800,000) net of net debt as at date of disposal, payable in cash. The disposal was completed on 21st March 2014, resulting in a gain on disposal of a subsidiary of approximately HK$153,816,000 in the financial statement of Shanghai Property (No. 1) Holdings SRL. The gain on disposal of approximately HK$51,272,000 and cumulative exchange gain of approximately HK$18,360,000 are included in "share of profit of investments accounted for using equity method – net" in the consolidated income statement.

Set out below are the associates of the VSC Group as at 31st March 2013 and 2014. The associates as listed below have share capital consisting solely of ordinary shares, which are held directly by the VSC Group.

Details of the principal investments in associates as at 31st March 2013 and 2014 are as follows:

Name of entity	Place of business/ country of incorporation	% of ownership interest 2014	2013	Nature of the relationship	Measurement method
China Able Limited	British Virgin Islands	33.3%	33.3%	*Note i*	Equity
Changshu Baoshunchang Steel Processing Co., Ltd.	Mainland China	49.9%	34.9%	*Note ii*	Equity

Note i: China Able Limited ("China Able") is engaged in property investment business. China Able is a contractual joint venture which is held in equal shares between Fit Team Holdings Limited, a wholly owned subsidiary of the VSC Group since 26th March 2008, Nanyang Industrial (China) Limited, an independent third-party and Marvel Champ Investments Limited, another independent third-party. China Able was an associate of the VSC Group since May 2007.

Note ii: Changshu Baoshunchang Steel Processing Co., Ltd. (“常熟寶順昌”) is engaged in processing of steel in Mainland China. 常熟寶順昌 became an associate of the VSC Group since November 2005. It is a contractual joint venture established in Mainland China with an operating period of 30 years to 2035.

There are no contingent liabilities relating to the VSC Group's interest in the associates.

Summarised financial information for associates

Set out below are the summarised financial information for associates which are accounted for using equity method.

	China Able (i)		常熟寶順昌(ii)		Associates not individually significant		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Summarised statement of financial position								
Current								
Cash and cash equivalents	344	939	8,946	421	909	8,887	10,199	10,247
Other current assets	763,055	1,565	31,474	26,724	49,157	102,990	843,686	131,279
Total current assets	763,399	2,504	40,420	27,145	50,066	111,877	853,885	141,526
Financial liabilities	(75,617)	(28,196)	(17,466)	(7,650)	(24,885)	(65,157)	(117,968)	(101,003)
Other current liabilities	(2,207)	(4,041)	(11,190)	(9,234)	(2,905)	(4,907)	(16,302)	(18,182)
Total current liabilities	(77,824)	(32,237)	(28,656)	(16,884)	(27,790)	(70,064)	(134,270)	(119,185)
Non-current assets	—	791,677	5,579	6,520	37,418	43,830	42,997	842,027
Non-current financial liabilities	—	(200,889)	—	—	(71,826)	(69,650)	(71,826)	(270,539)
Other non-current liabilities	—	(74,950)	—	—	—	—	—	(74,950)
Total non-current liabilities	—	(275,839)	—	—	(71,826)	(69,650)	(71,826)	(345,489)
Net assets/(liabilities)	685,575	486,105	17,343	16,781	(12,132)	15,993	690,786	518,879

	China Able (i)		常熟寶順昌(ii)		Associates not individually significant		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Summarised statement of comprehensive income								
Revenue	58,972	49,543	95,787	124,052	116,693	80,821	271,452	254,416
Operating profit/(loss)	255,996	21,035	436	(422)	(29,124)	(10,082)	227,308	10,531
Income tax expense	(11,028)	(7,762)	(199)	(207)	(2)	(19)	(11,229)	(7,988)
Profit/(loss) for the year and total comprehensive income/(loss)	244,968	13,273	237	(629)	(29,126)	(10,101)	216,079	2,543
Dividend received from an associate	—	—	—	(4,045)	—	—	—	(4,045)

The information above reflects the amounts presented in the financial statements of the associates (and not the VSC Group's share of those amounts) adjusted for differences in accounting policies between the VSC Group and the associates.

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interests in associates

	China Able (i)		常熟寶順昌(ii)		Associates not individually significant		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Summarised financial information								
Opening net assets/(liabilities) at 1st April	486,105	472,826	16,781	17,361	15,993	(17,781)	518,879	472,406
Addition of investment in an associate	—	—	—	—	—	43,151	—	43,151
Profit/(loss) for the year	244,968	13,273	237	(629)	(29,126)	(10,101)	216,079	2,543
Currency translation differences	(45,498)	6	325	49	1,001	724	(44,172)	779
Closing net assets/(liabilities)	685,575	486,105	17,343	16,781	(12,132)	15,993	690,786	518,879
Investments in associates								
Carrying value	228,525	162,035	8,654	8,373	—	12,184	237,179	182,592

22. Deferred income tax (liabilities)/assets

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income tax assets and liabilities relate to income taxed levied in the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. The offset amounts are as follows:

	Consolidated	
	2014	**2013**
	HK$'000	*HK$'000*
Deferred income tax assets:		
— Deferred income tax assets to be recovered after 12 months	12,129	12,733
— Deferred income tax assets to be recovered within 12 months	2,866	2,471
	14,995	15,204
Deferred income tax liabilities:		
— Deferred income tax liabilities to be settled after 12 months	(107,330)	(817)
Net deferred income tax (liabilities)/assets	(92,335)	14,387

The movements in net deferred income tax (liabilities)/assets are as follows:

	Consolidated	
	2014	**2013**
	HK$'000	*HK$'000*
At 1st April	14,387	31,366
Charged to the consolidated income statement *(Note 11)*	(18,969)	(15,050)
Acquisition of a subsidiary *(Note 36(a))*	(88,839)	—
Disposal of investment in a subsidiary	—	(1,955)
Exchange differences	1,086	26
At 31st March	(92,335)	14,387

The movements in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Deferred income tax assets:

		Consolidated	
	Cumulative tax losses	**Decelerated depreciation**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1st April 2012	32,130	427	32,557
Charged to the consolidated income statement	(15,294)	(122)	(15,416)
Disposal of investment in a subsidiary	(1,955)	–	(1,955)
Exchange differences	26	–	26
At 31st March 2013	14,907	305	15,212
Charged to the consolidated income statement	(174)	(177)	(351)
Exchange differences	149	–	149
At 31st March 2014	14,882	128	15,010

Deferred income tax liabilities:

	Consolidated			
	Investment property	**Withholding tax**	**Accelerated depreciation**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1st April 2012	—	(1,120)	(71)	(1,191)
Credited/(charged) to the consolidated income statement	—	410	(44)	366
At 31st March 2013	—	(710)	(115)	(825)
Charged to the consolidated income statement	(18,256)	(333)	(29)	(18,618)
Acquisition of a subsidiary *(Note 36(a))*	(88,839)	—	—	(88,839)
Exchange differences	937	—	—	937
At 31st March 2014	(106,158)	(1,043)	(144)	(107,345)

Deferred income tax assets are recognised for tax loss carryforwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. As at 31st March 2014, the deferred income tax assets recognised from tax loss of approximately HK$6,098,000 (2013: HK$7,333,000) can be carried forward indefinitely. The remaining tax losses of approximately HK$8,784,000 (2013: HK$7,574,000) will expire in five years from the year they were incurred.

The VSC Group did not recognise deferred income tax assets of approximately HK$417,000 (2013: HK$421,000) in respect of tax losses amounting to approximately HK$2,528,000 (2013: HK$2,550,000) that can be carried forward indefinitely to offset against future taxable income.

Deferred income tax liabilities of approximately HK$236,000 (2013: HK$1,383,000) have not been recognised for the withholding tax that would be payable on the unremitted earnings of certain subsidiaries, as management currently has no intention to remit those earnings.

23. Available-for-sale financial asset

	Consolidated	
	2014	**2013**
	HK$'000	*HK$'000*
At 1st April	255	445
Addition	63	—
Change in fair value *(Note 34)*	(35)	(190)
At 31st March	283	255

Available-for-sale financial asset, which is stated at fair value and denominated in HK$, represents shares listed on The Stock Exchange of Hong Kong Limited.

24. Derivative financial instruments

	Consolidated			
	2014		2013	
	Assets	Liabilities	Assets	Liabilities
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Forward foreign exchange contracts — held for trading	—	(912)	1,059	—

The credit quality of derivative assets has been assessed with reference to historical information about the counterparty default rates. The existing counterparties do not have defaults in the past.

The total notional principal amount of the outstanding forward foreign exchange contracts at 31st March 2014 was approximately US$19,000,000 (2013: US$44,000,000). Net fair value change on forward foreign exchange contracts during the year was recognised in "other gains – net" in the consolidated income statement. The settlement date of the last instalment is 22nd October 2015 (2013: 27th May 2014).

25. Inventories

	Consolidated	
	2014	2013
	HK$'000	*HK$'000*
Finished goods	332,993	365,717

The costs of inventories recognised as expenses and included in "cost of sales" in the consolidated income statement amounted to approximately HK$3,477,956,000 (2013: HK$3,407,400,000).

26. Trade and bill receivables and loan receivable

(a) Trade and bill receivables

	Consolidated	
	2014	2013
	HK$'000	*HK$'000*
Trade and bill receivables		
— from third parties	414,185	419,951
— from an associate	—	10,780
Less: Provision for impairment of trade receivables	(8,830)	(7,241)
Trade and bill receivables, net	405,355	423,490

Sales are either covered by letters of credit or open account with credit terms of 15-90 days.

Ageing analysis of trade and bill receivables by invoice date is as follows:

	Consolidated	
	2014	**2013**
	HK$'000	*HK$'000*
0 to 60 days	343,788	359,418
61 to 120 days	33,386	37,394
121 to 180 days	10,135	19,451
181 to 365 days	15,659	7,279
Over 365 days	11,217	7,189
	414,185	430,731
Less: Provision for impairment of trade receivables	(8,830)	(7,241)
	405,355	423,490

As at 31st March 2014, trade and bill receivables of approximately HK$311,629,000 (2013: HK$333,706,000) were fully performing and were from customers with no history of default.

Movements on the provision for impairment of trade receivables are as follows:

	Consolidated	
	2014	**2013**
	HK$'000	*HK$'000*
At 1st April	7,241	6,179
Provision for impairment recognised in the consolidated income statement, net *(Note 7)*	1,883	2,212
Write-off of provision for impairment	(385)	(1,173)
Exchange differences	91	23
At 31st March	8,830	7,241

As at 31st March 2014, trade receivables of approximately HK$8,830,000 (2013: HK$7,241,000) were impaired and fully provided for. The amount of provision recovered in the consolidated income statement during the year was approximately HK$1,798,000 (2013: HK$434,000). The ageing analysis of these receivables is as follows:

	Consolidated	
	2014	**2013**
	HK$'000	*HK$'000*
0 to 60 days	300	26
61 to 120 days	—	—
121 to 180 days	1,012	34
181 to 365 days	427	372
Over 365 days	7,091	6,809
	8,830	7,241

The ageing analysis of trade receivables past due but not impaired (based on due date) is as follows:

	Consolidated	
	2014	**2013**
	HK$'000	*HK$'000*
0 to 60 days	68,044	58,991
61 to 120 days	9,076	16,708
121 to 180 days	10,701	13,309
181 to 365 days	5,737	772
Over 365 days	168	4
	93,726	89,784

The carrying amounts of net trade and bill receivables approximated to their fair values as at 31st March 2013 and 2014.

The carrying amounts of trade and bill receivables were denominated in the following currencies:

	Consolidated	
	2014	**2013**
	HK$'000	*HK$'000*
RMB	160,953	183,370
HK$	241,898	233,866
US$	11,334	13,495
	414,185	430,731

(b) Loan receivable

	Consolidated	
	2014	**2013**
	HK$'000	*HK$'000*
Loan receivable	19,000	19,000
Less: Provision for impairment	(19,000)	—
	—	19,000

The loan receivable was interest-free and secured by certain equity interest and loan receivable owned by the borrower. Provision for impairment of HK$19,000,000 (2013: Nil) has been made due to the recoverable amount of loan receivable is below its carrying values.

27. Prepayments, deposits and other receivables

	Consolidated	
	2014	**2013**
	HK$'000	*HK$'000*
Prepayment for leasehold improvement	16,028	—
Prepayments for purchases and services	98,244	97,407
Rental and other deposits	11,227	6,933
Value-added tax recoverable	8,278	4,412
Others	12,548	9,073
	146,325	117,825
Less: Provision for impairment	(13,180)	—
	133,145	117,825
Less: Non-current	(26,335)	—
Current	106,810	117,825

Provision for impairment of HK$13,180,000 (2013: Nil) has been made mainly due to default that the recoverable amounts of other receivables are below their carrying values.

The carrying amounts of prepayments, deposits and other receivables approximated to their fair values as at 31st March 2013 and 2014. They were denominated in the following currencies:

	Consolidated	
	2014	**2013**
	HK$'000	*HK$'000*
RMB	114,482	95,013
HK$	16,584	20,861
US$	2,079	1,351
EUR	—	600
	133,145	117,825

28. Pledged bank deposits/Cash and cash equivalents

	Consolidated		Company	
	2014	**2013**	**2014**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash on hand	200	230	—	—
Cash at bank	370,328	460,173	361	8,928
Short-term bank deposits	39,458	97,428	10,473	12,050
	409,986	557,831	10,834	20,978
Less: Pledged bank deposits	(39,458)	(97,428)	(10,473)	(12,050)
Cash and cash equivalents	370,528	460,403	361	8,928

Pledged bank deposits and cash and cash equivalents were denominated in the following currencies:

	Consolidated		Company	
	2014	**2013**	**2014**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
HK$	218,720	356,722	359	8,722
RMB	164,379	152,618	—	—
US$	26,831	48,397	10,475	12,256
Others	56	94	—	—
	409,986	557,831	10,834	20,978

The carrying amounts of pledged bank deposits and cash and cash equivalents approximated to their fair values as at 31st March 2013 and 2014.

The effective interest rate on the bank deposit is 1.15% (2013: 0.67%) per annum. These deposits have an average maturity of 30 days (2013: 28 days).

As at 31st March 2013 and 2014, the VSC Group's bank deposits were pledged as collateral for the VSC Group's bank borrowings and banking facilities (Note 31).

As at 31st March 2014, pledged bank deposits and cash and bank deposits totalling approximately HK$164,379,000 (2013: HK$152,618,000) were denominated in RMB, which is not a freely convertible currency in the international market and its exchange rate is determined by the People's Bank of China.

29. Trade and bill payables

Payment terms with suppliers are either on letters of credit or open account with credit period.

Ageing analysis of trade and bill payables by invoice date is as follows:

	Consolidated	
	2014	**2013**
	HK$'000	*HK$'000*
0 to 60 days	76,070	338,983
61 to 120 days	3,526	175
121 to 180 days	63	314
181 to 365 days	3	363
Over 365 days	366	306
	80,028	340,141

The carrying amounts of trade and bill payables approximated to their fair values as at 31st March 2013 and 2014. They were denominated in the following currencies:

	Consolidated	
	2014	**2013**
	HK$'000	*HK$'000*
RMB	48,097	94,822
US$	26,966	238,745
HK$	4,965	6,574
	80,028	340,141

30. Accrued liabilities and other payables

	Consolidated		Company	
	2014	**2013**	**2014**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Accrual for employee benefit expenses	20,383	18,953	103	70
Accrual for operating expenses	31,838	22,978	—	—
Rental deposits received	6,874	—	—	—
Value-added tax payables	1,301	1,925	—	—
Provision for onerous contracts *(Note 6)*	—	4,000	—	—
	60,396	47,856	103	70
Less: Non-current	(4,990)	—	—	—
Current	55,406	47,856	103	70

The carrying amounts of accrued liabilities and other payables approximated to their fair values as at 31st March 2013 and 2014.

They were denominated in the following currencies:

	Consolidated		Company	
	2014	**2013**	**2014**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
RMB	30,334	20,571	—	—
HK$	30,062	27,285	103	70
	60,396	47,856	103	70

31. Borrowings

	Consolidated 2014 HK$'000	2013 HK$'000
Current		
— Trust receipts bank loans, secured *(Note i)*	763,936	482,755
— Short-term bank loans	242,307	92,157
— Portion of mortgage loan from bank due for repayment within one year which contains a repayment of demand clause *(Note ii)*	2,373	2,350
— Portion of mortgage loan from bank due after one year which contains a repayment on demand clause *(Note ii)*	1,395	3,768
	1,010,011	581,030
Non-current		
— Long term bank loan, secured *(Note iii)*	561,595	—
Total borrowings	1,571,606	581,030

Note i: The trust receipts bank loans are secured by the pledge of the VSC Group's bank deposits of HK$26,408,000 (2013: HK$97,428,000) (Note 28).

Note ii: The mortgage loan from bank is secured by the pledge of the VSC Group's investment property of HK$22,000,000 (2013: HK$22,000,000) (Note 16).

Note iii: The long term bank loan is secured by the pledge of the VSC Group's investment property of HK$983,580,000 (2013 : Nil) (Note 16) and bank deposits of HK$13,050,000 (2013: Nil) (Note 28).

The maturity of VSC Group's borrowings in accordance with the repayment schedule, without taking into account of the repayment on demand clause:

	Consolidated 2014 HK$'000	2013 HK$'000
Within one year	1,008,616	577,262
Between one and two years	1,395	2,380
Between two and five years	561,595	1,388
	1,571,606	581,030

Borrowings were denominated in the following currencies:

	Consolidated 2014 HK$'000	2013 HK$'000
HK$	1,136,796	485,063
RMB	112,607	92,157
US$	322,203	3,810
	1,571,606	581,030

The effective interest rates of borrowings (per annum) at the reporting dates are as follows:

	2014	**2013**
RMB	7.1%	8.4%
HK$	3.0%	2.0%
US$	0.5%	0.5%

All the VSC Group's borrowings as at 31st March 2013 and 2014 are on floating rate basis and the carrying amounts of the borrowings approximated to their fair values.

The VSC Group has the following floating rate undrawn borrowing facilities:

	Consolidated	
	2014	**2013**
	HK$'000	*HK$'000*
— expiring within one year	149,831	7,820
— expiring beyond one year	1,037,549	921,440
	1,187,380	929,260

32. Share capital

	Authorised (Ordinary shares of HK$0.10 each)		**Issued and fully paid (Ordinary shares of HK$0.10 each)**	
	Number of shares	**Nominal value**	**Number of shares**	**Nominal Value**
	'000	*HK$'000*	*'000*	*HK$'000*
At 31st March 2012	1,000,000	100,000	414,128	41,413
Share repurchased and cancelled *(Note)*	—	—	(1,450)	(145)
Exercise of share option	—	—	1,090	109
At 31st March 2013	1,000,000	100,000	413,768	41,377
Share repurchased and cancelled *(Note)*	—	—	(1,126)	(113)
Exercise of share options	—	—	5,059	506
At 31st March 2014	1,000,000	100,000	417,701	41,770

Note:

During the year, the Company repurchased an aggregate of 1,126,000 (2013: 1,450,000) ordinary shares of HK$0.10 each (2013: HK$0.10 each) at average repurchase price of HK$1.16 (2013: HK$0.81) per ordinary share. The repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premium paid on the repurchase of the shares of HK$1,193,000 (2013: HK$1,030,000) was charged to share premium. An amount equivalent to the repurchase price of the shares cancelled of HK$1,306,000 (2013: HK$1,175,000) was transferred from retained earnings to the capital redemption reserve.

33. Share options

The VSC Group has a share option scheme under which it may grant options to any person being an employee, agent, consultant or representative (including executive directors and non-executive directors) of the VSC Group to subscribe for shares in the Company, subject to a maximum of 30% of the issued share capital of the Company from time to time, excluding for the shares issued on the exercise of options. The exercise price will be determined by the Company's board of directors and shall be at least the highest of (i) the closing price of the Company's shares quoted on The Stock Exchange of Hong Kong Limited on the date of grant of the options, (ii) the average closing prices of the Company's shares quoted on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of grant of the options, and (iii) the nominal value of the Company's shares of HK$0.10 each.

Movements of share options were as follows:

Date of grant	Exercise period	Exercise price per share	As at 1st April 2013	Granted	Lapsed	Exercised	As at 31st March 2014
		HK$	*'000*	*'000*	*'000*	*'000*	*'000*
17th December 2013	17th December 2013 to 16th December 2023	1.3	—	300	—	—	300
27th November 2013	27th November 2013 to 26th November 2023	1.3	—	8,400	(500)	—	7,900
16th November 2012	16th November 2012 to 15th November 2022	0.67	7,240	—	(300)	(460)	6,480
7th September 2012	1st August 2014 to 31st July 2016	0.49	3,815	—	—	—	3,815
1st August 2011	1st August 2013 to 31st July 2015	0.692	3,815	—	—	(3,815)	—
13th October 2009	13th October 2009 to 12th October 2019	0.504	16,500	—	—	—	16,500
18th September 2009	18th September 2011 to 17th September 2019	0.586	334	—	—	(167)	167
18th September 2009	18th September 2012 to 17th September 2019	0.586	335	—	—	(167)	168
18th September 2009	18th September 2013 to 17th September 2019	0.586	667	—	—	(250)	417
19th June 2008	19th June 2008 to 18th June 2018	0.780	3,000	—	—	—	3,000
13th September 2006	13th September 2007 to 12th September 2016	0.900	2,000	—	—	(200)	1,800
19th September 2003	19th September 2005 to 18th September 2013	1.418	1,300	—	(1,300)	—	—
7th May 2003	7th May 2005 to 6th May 2013	0.970	500	—	(500)	—	—
2nd May 2003	2nd May 2003 to 1st May 2013	0.980	1,000	—	(1,000)	—	—
			40,506	8,700	(3,600)	(5,059)	40,547

Options exercised in current year resulted in 5,060,000 shares (2013: 1,090,000 shares) being issued at a weighted average exercise price of HK$0.69 each (2013: HK$0.63 each). The related weighted average share price at the time of exercise was HK$ 1.17 (2013: HK$ 0.92) per share.

The fair value of options granted was determined by the directors based on the valuations assessed by independent, professionally qualified valuers, using the Trinomial Model. The significant inputs into the model were share price at the grant date, exercise price, expected exit rate of employees and representatives, estimated trigger price of exercising of option, expected life of options, expected dividend payout rate and annual risk-free rate. The volatility measured is based on statistical analysis of daily share prices over a period of approximately 500-520 weeks.

34. Reserves

	Consolidated								
	Share premium	Share option reserve	Capital redemption reserve[iii]	Statutory reserves[i]	Capital reserve	Investment revaluation reserve	Cumulative foreign currency translation adjustments	Retained earnings	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st April 2012	338,005	5,886	77,203	13,431	58,355	147	37,451	87,016	617,494
Profit for the year	—	—	—	—	—	—	—	71,600	71,600
Currency translation differences	—	—	—	—	—	—	998	—	998
Change in fair value of available-for-sale financial asset	—	—	—	—	—	(190)	—	—	(190)
Transfer from retained earnings	—	—	—	425	—	—	—	(425)	—
Loss on control of subsidiaries	—	—	—	—	—	—	(1,469)	—	(1,469)
Share repurchased and cancelled	(1,030)	—	1,175	—	—	—	—	(1,175)	(1,030)
Exercise of share options	827	(252)	—	—	—	—	—	—	575
Lapse of share options	—	(1,735)	—	—	—	—	—	1,735	—
Share option scheme — value of services	—	2,748	—	—	—	—	—	—	2,748
Dividends paid to equity holders of the Company	—	—	—	—	—	—	—	(16,979)	(16,979)
At 31st March 2013	337,802	6,647	78,378	13,856	58,355	(43)	36,980	141,772	673,747

	Consolidated								
	Share premium	Share option reserve	Capital redemption reserve[iii]	Statutory reserves[i]	Capital reserve	Investment revaluation reserve	Cumulative foreign currency translation adjustments	Retained earnings	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st April 2013	337,802	6,647	78,378	13,856	58,355	(43)	36,980	141,772	673,747
Profit for the year	—	—	—	—	—	—	—	103,708	103,708
Currency translation differences	—	—	—	—	—	—	(4,436)	—	(4,436)
Realisation of currency translation differences on disposal of an associate	—	—	—	—	—	—	(18,360)	—	(18,360)
Fair value change of available-for-sale financial asset	—	—	—	—	—	(35)	—	—	(35)
Transfer from retained earnings	—	—	—	450	—	—	—	(450)	—
Share repurchased and cancelled	(1,193)	—	1,306	—	—	—	—	(1,306)	(1,193)
Exercise of share options	3,997	(1,033)	—	—	—	—	—	—	2,964
Lapse of share options	—	(608)	—	—	—	—	—	608	—
Share option scheme — value of services	—	763	—	—	—	—	—	—	763
Change in ownership interest in a subsidiary without change of control	—	—	—	(3,449)	—	—	—	11,590	8,141
Dividends paid to equity holders of the Company	—	—	—	—	—	—	—	(25,877)	(25,877)
At 31st March 2014	340,606	5,769	79,684	10,857	58,355	(78)	14,184	230,045	739,422

	Company					
	Share premium	**Share option reserve**	**Capital redemption reserve (iii)**	**Contributed surplus (ii)**	**Retained earnings**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st April 2012	338,005	5,886	77,203	53,986	20,054	495,134
Profit for the year	—	—	—	—	13,692	13,692
Share repurchased and cancelled	(1,030)	—	1,175	—	(1,175)	(1,030)
Exercise of share options	827	(252)	—	—	—	575
Lapse of share options	—	(1,735)	—	—	1,735	—
Share option scheme — value of services	—	2,748	—	—	—	2,748
Dividends paid	—	—	—	—	(16,979)	(16,979)
At 31st March 2013	337,802	6,647	78,378	53,986	17,327	494,140
Profit for the year	—	—	—	—	31,181	31,181
Share repurchased and cancelled	(1,193)	—	1,306	—	(1,306)	(1,193)
Exercise of share options	3,997	(1,033)	—	—	—	2,964
Lapse of share options	—	(608)	—	—	608	—
Share option scheme — value of services	—	763	—	—	—	763
Dividends paid	—	—	—	—	(25,877)	(25,877)
At 31st March 2014	340,606	5,769	79,684	53,986	21,933	501,978

Notes:

(i) Statutory reserves represent enterprise expansion reserve fund and general reserve fund set up by certain subsidiaries in Mainland China. As stipulated by regulations in Mainland China, the subsidiaries established and operated in Mainland China are required to appropriate a portion of their aftertax profit (after offsetting prior year losses) to the enterprise expansion reserve fund and general reserve fund, at rates determined by their respective boards of directors. The general reserve fund may be used for making up losses and increasing capital, while the enterprise expansion reserve fund may be used for increasing capital.

(ii) In addition to the retained earnings, under the Companies Act 1981 of Bermuda (as amended), contributed surplus is also available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if (i) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

(iii) The capital redemption reserve has been established upon repurchase of shares.

35. Consolidated statement of cash flows

(a) Reconciliation of profit before income tax to net cash (used in)/generated from operations is as follows:

	2014 *HK$'000*	2013 *HK$'000*
Profit before income tax	149,356	100,815
Share of profit of investments accounted for using equity method — net	(69,580)	(3,529)
Interest income	(2,617)	(1,412)
Interest expenses	37,252	21,499
Depreciation of property, plant and equipment	4,658	5,553
Gain on disposals of property, plant and equipment	(252)	(566)
Amortisation of intangible assets and land use rights	1,229	795
Fair value gain on an investment property	(73,022)	—
Loss on disposal of investment in a subsidiary	—	2,448
Gain on deemed disposal of investment in a subsidiary	—	(1,354)
Provision for impairment on amount due from an associate	30,759	8,000
Provision for impairment of loan and other receivables	32,180	—
Change in fair values of derivative financial instruments	1,971	(430)
Share option scheme — value of services	763	2,748
Operating profit before working capital changes	112,697	134,567
Decrease in inventories	32,724	31,141
Decrease in trade and bill receivables	22,423	140,486
Increase in prepayments, deposits and other receivables	(28,500)	(1,216)
Increase in amounts due from associates	(986)	(2,495)
(Decrease)/increase in trade and bill payables	(258,044)	156
Decrease in receipts in advance	(5,888)	(14,314)
(Decrease)/increase in accrued liabilities and other payables	(3,852)	11,428
Net cash (used in)/generated from operations	(129,426)	299,753

(b) In the consolidated statement of cash flows, proceeds from disposals of property, plant and equipment comprise:

	2014 *HK$'000*	2013 *HK$'000*
Net book amount	114	37
Gain on disposals of property, plant and equipment	252	566
Proceeds from disposals of property, plant and equipment	366	603

(c) In the consolidated statement of cash flows, proceeds from disposal of investment in a subsidiary comprise:

	2014	**2013**
	HK$'000	*HK$'000*
Net assets disposed	—	5,957
Loss on disposal of investment in a subsidiary	—	(2,448)
Cash consideration received	—	3,509

On 12th July 2012, the VSC Group disposed of its 100% equity interest in VSC Steel (Shenzhen) Co., Ltd., a subsidiary which was engaged in stockholding and trading of steel in Mainland China, at a cash consideration of RMB2,900,000 (equivalent to approximately HK$3,509,000) to a former management of the subsidiary.

36. Significant business combination

For the year ended 31st March 2014

On 12th October 2013, the VSC Group and China Travel Service (Holdings) Hong Kong Ltd. ("CTS"), an independent third party, entered into the Sale and Purchase Agreement, pursuant to which the VSC Group acquired 100% of the issued share capital of Eastlink Investment International Inc. ("Eastlink"), at a consideration of approximately RMB708,000,000 (equivalent to approximately HK$903,032,000). The goodwill o f approximately HK$57,743,000 is primarily attributable to economies of scale expected from combining the operations of the VSC Group. The acquisition was completed on 10th December 2013.

The following table summarises the consideration paid and the fair value of the assets acquired and liabilities assumed recognised at the acquisition date.

	HK$'000
Cash consideration paid	903,032
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Investment property	920,449
Trade receivables	4,288
Cash and cash equivalents	50,159
Intangible assets	12,748
Deferred income tax liabilities	(88,839)
Accrued liabilities and other payables	(16,392)
Borrowings	(37,124)
Total identifiable net assets	845,289
Goodwill *(Note 18)*	57,743
Net cash outflow on acquisition of business:	
Cash consideration paid	903,032
Cash and cash equivalent acquired	(50,159)
	852,873

Acquisition-related costs of approximately HK$22,432,000 have been charged to administrative expenses in the consolidated income statement for the year ended 31st March 2014.

The revenue and profit included in the consolidated income statement since 10th December 2013 contributed by Eastlink were approximately HK$13,085,000 and approximately HK$56,360,000 respectively. Had Eastlink been consolidated from 1st April 2013, the consolidated income statement would show pro-forma revenue of approximately HK$3,875,310,000 and profit of approximately HK$113,769,000 respectively.

For the year ended 31st March 2013

On 8th November 2012, the VSC Group acquired the distribution business of selling building products at a cash consideration of approximately HK$8,041,000 from an independent third party ("the Acquisition").

As a result of the Acquisition, the VSC Group is expected to increase its presence in Mainland China market. It also expects to reduce costs through economies of scale. The goodwill of approximately HK$4,263,000 arising from the Acquisition is primarily attributable to the significant synergies expected to arise in connection with the VSC Group's strategic objectives and the development of customer-focused products to capitalize on the business growth in Mainland China.

The following table summarises the consideration paid and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date.

	HK$'000
Consideration at 8th November 2012:	
— Cash	8,041
Identified net asset	
— Distribution rights	(3,778)
Goodwill	4,263

The revenue and profit included in the consolidated income statement since 8th November 2012 contributed by Acquisition were approximately HK$16,281,000 and approximately HK$339,000 respectively. Had the Acquisition been consolidated from 1st April 2012, the consolidated income statement would show pro-forma revenue of approximately HK$3,785,562,000 and profit of approximately HK$70,870,000 respectively.

37. Transactions with non-controlling interests

Acquisition of additional interest in a subsidiary

On 25th June 2013, the VSC Group acquired an additional 33.3% shareholding o f Shanghai Bao Shun Chang International Trading Co., Ltd. ("BSC") for a consideration of RMB22,390,000 (equivalent to approximately HK$28,234,000). The carrying amount of the non-controlling interests in BSC on the date of acquisition was HK$36,374,000. The VSC Group recognised a reduction in non-controlling interests of HK$36,374,000 and an increase in equity attributable to owners of the VSC Group of HK$8,141,000. The effect of changes in the ownership interest of BSC on the equity attributable to owners of the VSC Group during the year is summarised as follows:

	HK$'000
Carrying amount of non-controlling interests acquired	36,374
Consideration paid to non-controlling interests	(28,233)
Excess of consideration paid recognised within equity	8,141

38. Guarantees

	Company	
	2014	**2013**
	HK$'000	*HK$'000*
Guarantees provided by the Company in respect of banking facilities of its subsidiaries	3,489,286	2,219,799
Banking facilities utilised by subsidiaries in respect of guarantees provided by the Company	1,571,606	581,030

39. Commitments

(a) Commitments under operating leases

(i) Lessor

The VSC Group leases an investment property under non-cancellable operating lease agreements. The lease terms are between 1 and 10 years, and the lease agreements are renewable at the end of the lease period at market rate.

Total commitments receivable under various noncancellable operating lease agreements in respect of rented premises are analysed as follows:

	Consolidated		**Company**	
	2014	**2013**	**2014**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Not later than one year	40,160	223	—	—
Later than one year and not later than five years	105,517	—	—	—
Later than five years	15,235	—	—	—
	160,912	223	—	—

(ii) Lessee

The VSC Group leases various retail outlets, offices and warehouses under non-cancellable operating lease agreements. The lease terms are between 1 and 5 years, and the majority of lease agreements are renewable at the end of the lease period at market rate.

Total commitments payable under various non-cancellable operating lease agreements in respect of rented premises are analysed as follows:

	Consolidated		**Company**	
	2014	**2013**	**2014**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Not later than one year	20,238	25,253	—	—
Later than one year and not later than five years	7,417	8,316	—	—
	27,655	33,569	—	—

(b) Capital commitment

Capital commitment at the end of the reporting period is as follows:

	Consolidated		**Company**	
	2014	**2013**	**2014**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Contracted but not provided for:				
Renovation work for an investment property	2,634	—	—	—
Authorised but not contracted for:				
Renovation work for an investment property	56,745	—	—	—

(c) Commitments under derivative contracts

As at 31st March 2014, the VSC Group had outstanding forward foreign currency contracts to purchase approximately US$19,000,000 (2013: US$44,000,000) for approximately RMB117,450,000 (2013: RMB283,960,000) by 19 monthly settlements. The settlement date of the last instalment is 22nd October 2015 (2013: 27th May 2014).

As at 31st March 2014, the Company has no commitment under derivative contracts (2013: Nil).

40. Related party transactions

(a) Transactions

The following is a summary of significant related party transactions, which were carried out in the normal course of the VSC Group's business:

	Notes	2014 HK$'000	2013 HK$'000
Management fee income from services provided to an associate	*(i)*	2,102	562
Sales of goods to an associate	*(ii)*	90,857	109,207
Rental expenses paid to an associate	*(iii)*	5,207	3,450

Notes:

(i) Management services were provided by VSC Steel (Shanghai) Co., Ltd. to an associate at prices mutually agreed by both parties.

(ii) Goods were sold by Shanghai Bao Shun Chang International Trading Co., Ltd. to an associate at prices mutually agreed by both parties.

(iii) Rental expenses were charged to VSC Steel (Shanghai) Co., Ltd. and Leisure Plus International Trading (Shanghai) Co., Ltd. by an associate at prices mutually agreed by both parties.

(b) Key management compensation

	2014 HK$'000	2013 HK$'000
Salaries and allowances	13,388	11,848
Bonus	4,158	3,317
Pension costs — defined contribution schemes	188	183
Share option scheme — value of services	328	2,443
	18,062	17,791

41. Events occurring after the balance sheet date

On 16th May 2014 the VSC Group entered into a Joint Venture Agreement with an independent third party, pursuant to which the VSC Group will need to inject approximately HK$19,500,000 to the joint venture company. The VSC Group owns 50% equity interest in the joint venture company, which will engage in the processing of steel products.

3. INDEBTEDNESS STATEMENT

Borrowings

As at the close of business on 31 August 2014, being the latest practicable date for the purpose of preparing this indebtedness statement prior to the printing of this circular, the Group had total borrowings of approximately HK$1,509,833,000, comprising short-term bank loans of approximately HK$117,152,000 (secured by guarantee provided by the Company), trust receipts bank loans of approximately HK$826,661,000 (secured by the Group's pledged bank deposits under trust receipt bank loan arrangements) and long-term loans of approximately HK$566,020,000 secured by property of the Group.

Disclaimer

Save as aforesaid, and apart from intra-group liabilities and normal trade payables, the Group did not have any outstanding bank overdrafts, loans, debt securities, borrowings or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, finance lease, hire purchases commitments, which were either guaranteed, unguaranteed, secured or unsecured, guarantees or other material contingent liabilities at the close of business on 31 August 2014.

To the best knowledge of the Directors, having made all reasonable enquiries, there has been no material change in indebtedness or contingent liabilities of the Group since 31 August 2014.

4. WORKING CAPITAL

The Directors, after due and careful enquiry, are of the opinion that, after taking into consideration the financial resources presently available to the Group, including banking facilities and other internal resources, and the estimated net proceeds from the Open Offer, the Group has sufficient working capital for its present requirements, that is for at least the next twelve months from the date of this circular in the absence of unforeseeable circumstances.

5. MATERIAL CHANGE

The Directors confirm that there has been no material change in the financial or trading position or outlook of the Group since 31 March 2014, being the date to which the latest published audited consolidated financial statements of the Company were made up, up to and including the Latest Practicable Date.

6. BUSINESS TREND AND FINANCIAL AND TRADING PROSPECTS OF THE GROUP

Results

The Group underwent a series of important internal changes in the past year and a half. Its ambitious strategy to implement a new organisational structure and new management roles have brought about notable improvements across business lines. Although the Group is still in the early stages of the transformation process, its mission and mandate for the future as a company have never been more uniform and clearer.

The Group continued to deliver a strong performance for the financial year ended 31 March 2014 (the "current year" or "FY2014"), with profit attributable to Shareholders amounting to approximately HK$104 million. This represented a notable profit increase of approximately 44.8% from approximately HK$72 million last financial year. Gross profit for the current year was approximately HK$370 million, up by approximately 4.2% compared to last financial year, while revenue grew by approximately 2.4% year over year. Net profit surged by approximately 46.7% to approximately HK$105 million, a significant improvement from last financial year's net profit of approximately HK$71 million. Gross profit margin and net profit margin were about 9.6% and 2.7% respectively, higher than about 9.4% and 1.9% recorded in last financial year.

FY2014 was a year of substantial progress in VSC's transformation journey. The Group made significant changes to its business model and eliminated or restructured non-performing businesses, with one-time impairment provisions on such businesses totalling approximately HK$63 million. The Group simplified its organisation and determined that it would remain in business lines where it has relevance, expertise and competitive strength. It also reserved for those businesses where closing or divestment was not executed in FY2014 but would be completed in the months to come. Its new organisation is simpler comprising three major lines of business, Industrial Materials Distribution Group ("IMDG"), Building & Design Solutions Group ("BDSG") and Property Group.

Industrial Materials Distribution Group

The Group brought together its steel and engineering plastics distribution business and created what it now calls Industrial Materials Distribution Group. This new organisation allows for synergies in procurement, logistics and supply chain management. The IMDG will be able to share resources across businesses and reduce expenses in the process. In May 2014, all China distribution businesses co-located from separate offices in Shanghai to its newly acquired office building in Putuo District. Having its teams under the same roof will allow them to take advantage of combined expertise while sharing corporate resources, minimizing risk through better controls and reducing expenses. The Group's steel procurement consolidation and geographic expansion strategies are now managed from Shanghai. During the current year, IMDG delivered approximately 3.8% improvement in net profit and approximately 3.4% sales growth year over year.

The steel distribution business (Hong Kong Construction Steel and Bao Shun Chang) delivered excellent results. Tons sold grew by approximately 14.0% while net profit increased approximately 6.1% year over year. Supported by a strong construction market in Hong Kong and a growing automotive industry in Mainland China, the Group was able to deliver improvements in spite of a decrease in steel prices in the second half of the current year. Hong Kong Steel, which sells to Hong Kong and Macau's construction industries delivered significant volume growth in the infrastructure segment and was able to grow reinforcement bar tons by approximately 31.0% while other tons of products like piling and carbon structurals grew by approximately 35.2%.

The engineering plastics trading business (resins trading) struggled in the last half of the current year and while it delivered a profit, it was not able to deliver on its plan. While gross profit margin increased by almost 50 basis points, lower sales and bad debt write-offs, related to a customer that went into administration by local government, caused net profit to decrease. Its sales in Hong Kong and Shenzhen, which made up approximately 57.2% of the total sales during the last financial year, decreased to approximately 41.4% in current year as many exporters reduced their purchases. It continued to make great strides in expanding its geographic presence into Mainland China. Its newly opened office in Xiamen managed to increase sales by approximately 71.7%, while its Eastern China sales offices (Shanghai, Ningbo and Suzhou) delivered over approximately 8.4% sales growth.

Building & Design Solutions Group

The Group also re-defined its business model for Building & Design Solutions Group. Teams in each city and province are focused on the regional trends and its sales efforts seek to make the most of China's drive for urbanisation. The Group closed stores that were not profitable and implemented retail strategies while strengthening dealer networks and adding resources to grow project sales. It has invested in architectural and design centres ("A&D centres") to grow retail sales and strengthened project teams. Hong Kong BDS moved away from the showroom concept and in April 2013, under the TOTO banner, opened the largest sanitary A&D centre in Hong Kong. It also opened an additional A&D centre to cater to architects and designers looking for European made products. Its new A&D centre under the banner of BAGNODESIGN LONDON was opened in January 2014.

BDSG's sales were fairly flat in total but grew by approximately 4.3% excluding Shenzhen, which was closed in 2013. BDSG generated a loss of approximately HK$3.2 million for the current year primarily caused by restructuring expenses in Changsha and Wuhan and the closing of Shenzhen operation. Onetime expenses related to the opening of the two A&D centres in Hong Kong and closing of showrooms also contributed to the loss.

Restructuring of Changsha and Wuhan BDS was necessary as both of these businesses were recent acquisitions and business models were not well-aligned with the markets currently served. Restructuring included headcount reduction and store closings. Its brand partner, TOTO, and dealer partners were very supportive of restructuring thus total sales were not affected. The Group is happy to report that restructuring has delivered on objectives it sets and trends show that both Changsha and Wuhan BDS will deliver on profit and growth commitments in financial year ended 31 March 2015. Changsha and Wuhan BDS have exclusive distribution rights in Hunan and Hubei respectively. New structure and organisation allow them to use their growing dealer network to boost their sales on a province wide scale.

New A&D centres in Hong Kong are expected to facilitate retail and project sales growth on the back of a strong construction market. Trends in both retail and projects are showing top line and bottom line improvement. By representing TOTO Japan and BAGNODESIGN LONDON, the Group is now able to provide the market a great selection of Japanese and European sanitary ware products. Its A&D centres provide architects and designers access to great quality products in an elegant and beautiful setting.

Property Group

The Group's property strategy continues to deliver value to shareholders. Its team specialises in buying and upgrading for significant increase in rental income.

While investments in projects since the Group entered the property sector have been minority investments, the Group has always been the operator. Being the operator of properties in Dalian and Shanghai, allowed the Group to gain significant insight and experience that it is now using in its new acquisition of a 27-storey office building in Putuo District (Shanghai) which is 100% owned by the Group. The sale of the Point Jingan in the fourth quarter of current year, delivered relevant experience and great shareholder value. The Group plans to use the experience gained in the upgrade and disposal processes of its assets as it manages its Putuo property (Shanghai) and reviews other opportunities for investment.

Outlook

The uncertainties of the global markets and China's slow down on economic growth will inevitably have an impact across the region. The Group expects the global steel market to continue to face imbalances. China's steel production continues to outpace demand and will put pressure on pricing. Iron ore output is also outpacing demand giving steel mills cost relief as steel price falls.

As China's growth slows down, the competitive environment will continue to intensify. The Group will seek opportunities in new products and processes with existing customers and continue its geographic expansion into areas where it is not present.

In steel, it will continue to diversify its product and process offering while continuing to create a more efficient supply chain across all products. Hong Kong Steel team will continue to deliver aggressive growth by continuing to grow market share of structurals and carbon plate while maintaining its market share in reinforcement bar. Hong Kong and Macau infrastructure, residential and non-residential construction will continue at a break neck pace.

The Group will continue to work with contractors and the government to define the right investment in downstream processing for construction steel. In May 2014, the Group signed a joint venture agreement with a renowned international steel processing company. Their knowledge of processing and their experience in construction steel procurement and distribution will make Group a sizeable player in downstream construction steel processing.

Bao Shun Chang will continue its drive to move from a local player in surface critical coil serving automotive, home appliance and construction to a national distributor across multiple product lines of steel. It will also explore an export strategy to take advantage of Mainland China's steel production capacity.

Engineering plastics will continue to focus on high-growth industries and expanding its geographic presence in Mainland China. It has worked to strengthen its ties to its strategic partners like Sabic Innovative Plastics Hong Kong Limited and Toray Plastics (China) Co. Ltd. and will work to recover and grow its market share in Hong Kong and Southern China.

China urbanisation will continue at an accelerated pace. Coupled with the property upgrade drive that is taking place in tier 1 cities, BDSG business should benefit as long as it remains in the high-end segment of sanitary ware. New brands are continually making their way to China and it will have to remain vigilant and one step ahead by using its relationships with developers and the brands it represents to expand its reach geographically. Its partnership with BAGNODESIGN LONDON will allow it to tap into the needs of architects and designers looking for a high-end European option in sanitary ware. BDSG's partnership with BAGNODESIGN LONDON gives it exclusivity for China and Asia. BDSG is now positioned for significant growth. Its recent re-organization in Changsha and Wuhan created a province wide sales strategy further boosting its presence in China's interior.

1. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The following is the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group as at 31 March 2014 (the "Unaudited Pro Forma Financial Information") which has been prepared by the Directors in accordance with paragraph 4.29 of the Listing Rules to illustrate the effects of the Open Offer on the basis of one Offer Share for every two Shares held on the Record Date on the audited consolidated net tangible assets of the Group as if the Open Offer had taken place on 31 March 2014.

The Unaudited Pro Forma Financial Information is prepared based on the audited consolidated net tangible assets of the Group as at 31 March 2014, as extracted from the published annual report of the Company for the year ended 31 March 2014, after incorporating the unaudited pro forma adjustments described in the accompanying notes.

The Unaudited Pro Forma Financial Information has been prepared for illustrative purpose only, based on the judgments and assumptions of the Directors, and because of its hypothetical nature, may not give a true picture of the financial position of the Group had the Open Offer been completed as at 31 March 2014 or at any future date.

	Audited consolidated net tangible assets of the Group attributable to equity holders of the Company as at 31 March 2014	Add: Estimated net proceeds from the Open Offer	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to equity holders of the Company immediately after the completion of the Open Offer	Audited consolidated net tangible assets per share attributable to the equity holders of the Company as at 31 March 2014	Unaudited pro forma adjusted consolidated net tangible assets per Share attributable to the equity holders of the Company after completion of the Open Offer (assuming no further issue of new Shares) as at 31 March 2014
	(Note 1)	*(Note 2)*		*(Note 3)*	*(Note 4)*
	HK$'000	*HK$'000*	*HK$'000*	*HK$*	*HK$*
Based on the issue of 210,757,625 Offer Shares at the Subscription Price of HK$0.50 per Offer Share	694,009	99,784	793,793	1.66	1.26

Notes:

(1) The audited consolidated net tangible assets of the Group attributable to the equity holders of the Company as at 31 March 2014 is based on the audited consolidated net assets of the Group attributable to the Shareholders of the Company as at 31 March 2014 of HK$781,192,000, with an adjustment for the intangible assets and goodwill as at 31 March 2014 of HK$87,183,000 as extracted from the published annual report of the Company for the year ended 31 March 2014.

(2) Assuming no further issue of new Shares on or before the Record Date, the estimated net proceeds from the Open Offer are based on 210,757,625 Offer Shares to be issued at the Subscription Price of HK$0.5 per Offer Share, after deduction of the related expenses of approximately HK$5.6 million.

(3) The audited consolidated net tangible assets per Share attributable to equity holders of the Company as at 31 March 2014 was approximately HK$1.66, which was based on the audited consolidated net tangible assets of the Group attributable to equity holders of the Company as at 31 March 2014 of HK$694,009,000 and 417,701,251 Shares in issue as at 31 March 2014.

(4) The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after aggregating the audited consolidated net tangible assets of the Group of HK$694,009,000 and the estimated net proceeds of HK$99,784,000 from the Open Offer (Note 2 above) and on the basis that 417,701,251 Shares were in issue as at 31 March 2014 and 210,757,625 Offer Shares were issued under the Open Offer as if the Open Offer had been issued subsequent to 31 March 2014 or completed on 31 March 2014, but does not take into account of any Shares which may be issued upon the exercise of Share Options or any Shares which may be granted and issued or repurchased by the Company pursuant to the general mandate and the repurchase mandate.

Assuming all outstanding and exercisable Share Options carrying rights to subscribe for a total of 19,093,000 new Shares (after taking into account the Option Undertakings) are exercised on or before the Record Date, (i) the unaudited pro forma adjusted consolidated net tangible assets of the Group immediately after the completion of the Open Offer would be HK$808,632,000, which is arrived at after aggregating the audited consolidated net tangible assets of the Group of HK$694,009,000, the estimated net proceeds from the Open Offer of HK$104,500,000 and the estimated net proceeds from the exercise of these Share Options of HK$10,123,000; (ii) 220,304,125 Offer Shares would be issued under the Open Offer; and (iii) the unaudited pro forma adjusted consolidated net tangible assets per Share would be HK$1.23.

(5) No adjustments have been made to the unaudited pro forma adjusted consolidated net tangible assets of the Group to reflect any trading results or other transactions of the Group entered into subsequent to 31 March 2014.

2. REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

pwc 羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION INCLUDED IN A CIRCULAR

TO THE DIRECTORS OF VAN SHUNG CHONG HOLDINGS LIMITED

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Van Shung Chong Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets of the Group as at 31 March 2014, and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages 151 to 153 of the Company's circular dated 23 October 2014, in connection with the proposed open offer of the Company (the "Circular"). The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described on pages 151 to 153 of the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the proposed open offer on the Group's financial position as at 31 March 2014 as if the proposed open offer had taken place at 31 March 2014. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's financial statements for the year ended 31 March 2014, on which an audit report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
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Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus", issued by the HKICPA. This standard requires that the reporting accountant complies with ethical requirements and plans and performs procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the proposed open offer at 31 March 2014 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 23 October 2014

The following is the text of letter and valuation certificate prepared for the purpose of incorporation in this circular received from Knight Frank Petty Limited, the independent professional valuer, in connection with the valuation of the property interests of the Group as at 31 August 2014.

Knight Frank 萊坊

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The Directors
Van Shung Chong Holdings Limited
49/F Hopewell Centre
183 Queen's Road East
Wanchai Hong Kong

23 October 2014

Dear Sirs

Valuation of Various Properties Located in Hong Kong and the PRC

In accordance with the instructions from Van Shung Chong Holdings Limited (the "Company") for us to value the captioned properties, we confirm that we have made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the captioned properties as at 31 August 2014.

Basis of Valuation

Our valuation is our opinion of the market value of the properties which we would define as intended to mean "the estimated amount for which an asset or liability should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

The market value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale, or any element of special value. The market value of property is also estimated without regard to costs of sale and purchase (or transactions), and without offset for any associated taxes.

Valuation Methodology

We have valued the properties by reference to sales evidence as available on the market and where appropriate, by Capitalisation Approach by capitalisation of the net rental shown on the documents handed to us. We have allowed for outgoings, and, in appropriate cases, made provisions for reversionary income potential.

Title Documents and Encumbrances

For the property of Group I which is held by the Company in Hong Kong, we have taken reasonable care to investigate the title of the property by obtaining land search records from the Land Registry. We have not, however, searched the original documents to verify ownership or to ascertain the existence of any amendment which does not appear on the copies handed to us.

For the property of Group II which is held by the Company in the PRC, We have been provided with copies of extracts of title documents relating to the properties. However, we have not inspected the original documents to verify ownership or to verify any amendments which may not appear on the copies handed to us. We have relied on the information given by the Company and its legal adviser, Zhong Lun Law Firm, regarding the title and other legal matters relating to the property.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions, title defects and outgoings of an onerous nature which could affect their values as at the date of valuation.

Source of Information

We have relied to a considerable extent on the information given by the Company and the legal opinion regarding the title to the property of Group II of the Company's legal adviser. We have no reason to doubt the truth and accuracy of the information provided to us by the Company and/ or its PRC legal adviser which is material to the valuation. We have accepted advice given by the Company on such matters as planning approvals or statutory notices, easements, tenure, ownership, completion dates of buildings, particulars of occupancy, tenancy details, floor and site areas and all other relevant matters. Dimensions, measurements and areas included in the valuation report are based on information contained in the documents provided to us and are therefore only approximations. We have not been able to carry out on-site measurements to verify the correctness of the site and floor areas of the properties and we have assumed that the site and the floor areas shown on the documents handed to us are correct. We were also advised by the Company that no material facts have been omitted from the information provided.

Inspection and Structural Condition

We have inspected the exterior and, where possible, the interior of the properties valued and the inspection was carried out by Ada Fang (Bachelor of Arts), our Department Assistant, in July 2014 and Ricky Chow (Bachelor of Science), our Assistant Manager in General Valuation Department, in August 2014 for the properties in Group II and Group I respectively. Our Ms. Ada Fang and Mr. Ricky Chow are technical staffs with respectively 2 and 21 years experience in property valuation. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report that the properties are free from rot, infestation or any other structural defects. No tests were carried out on any of the services.

Identity of Property to be valued

We have exercised reasonable care and skill (but will not have an absolute obligation to you) to ensure that the properties, identified by the properties address in your instructions, are the properties inspected by us and contained within our valuation report. If there is ambiguity as to the properties addresses, or the extent of the properties to be valued, this should be drawn to our attention in your instructions or immediately upon receipt of our report.

Property Insurance

We have valued the properties on the assumption that, in all respects, it is insurable against all usual risks including terrorism, flooding and rising water table at normal, commercially acceptable premiums.

Areas and Age

For the property of Group I, we have relied upon areas as available from a quoted source. Otherwise, dimensions and areas would be measured on-site or from plans and calculated in accordance with, where appropriate, the current HKIS Code of Measuring Practice and are quoted to a reasonable approximation, with reference to their source.

Structural and Services Condition

We were not instructed to undertake any structural surveys, test the services or arrange for any investigations to be carried out to determine whether any deleterious materials have been used in the construction of the properties. Our valuation has therefore been undertaken on the basis that the properties were in satisfactory repair and condition and contain no deleterious materials and that services function satisfactorily.

Ground Condition

We have assumed there to be no unidentified adverse ground or soil conditions and that the load bearing qualities of the site of the properties are sufficient to support the building constructed or to be constructed thereon; and that the services are suitable for any existing or future development. Our valuation is therefore prepared on the basis that no extraordinary expenses or delays will be incurred in this respect.

Environmental Issues

We are not environmental specialists and therefore we have not carried out any scientific investigations of sites or buildings to establish the existence or otherwise of any environmental contamination, nor have we undertaken searches of public archives to seek evidence of past activities that might identify potential for contamination. In the absence of appropriate investigations and where there is no apparent reason to suspect potential for contamination, our valuation is prepared on the assumption that the properties are unaffected. Where contamination is suspected or confirmed, but adequate investigation has not been carried out and made available to us, then the valuation will be qualified.

Compliance with Relevant Ordinances and Regulations

We have assumed that the properties valued had been constructed, occupied and used in full compliance with, and without contravention of any Ordinances, statutory requirement and notices except only where otherwise stated. We have further assumed that, for any use of the properties upon which this report is based, any and all required licences, permits, certificates, consents, approvals and authorization have been obtained, except only where otherwise stated.

Remarks

In preparing our valuation report, we have complied with "The HKIS Valuation Standards (2012 Edition)" published by the Hong Kong Institute of Surveyors and all requirements contained in the provision of Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited.

Currency

Unless otherwise stated, all money amounts stated are in Renminbi or Hong Kong dollars and the exchange rate adopted for conversion is HK$1=RMB0.795, which was approximately the prevailing exchange rate as at the date of valuation, and there has been no significant fluctuation in exchange rate for Renminbi against Hong Kong dollars between that date and the date of this letter.

For the property of group I, there is no potential tax liability. For the property of group II, there may be potential tax liability which would arise if the property interests were to be sold. Should disposal of the property interests located in the PRC be conducted, the potential tax liabilities arising may include business tax (5% on the transaction amount), urban maintenance and construction tax (7% on the business tax), educational surtax and surcharge (3% on the business tax), corporation income tax (25% on net profit upon disposal); stamp duty (0.05% on transaction amount) and land appreciation tax (the applicable rate is ranging from 30% and 60% on the net appreciated amount less deductibles). It is unlikely that such tax liability will be crystallized in the near future as the Company has no intention to disposal of the relevant property interest.

We enclose herewith our summary of values and valuation report.

Yours faithfully

For and on behalf of
Knight Frank Petty Limited

Clement W M Leung
MCIREA MHKIS MRICS RPS (GP)
Executive Director
Head of China Valuation

Note: Clement W M Leung, MCIREA, MHKIS, MRICS, RPS(GP), has been a qualified valuer with Knight Frank Petty Limited since 1999 and has about 19 years' experience in valuation of properties in Hong Kong, Macau and Asia Pacific Region and has 17 years' experience in valuation properties in the People's Republic of China.

Yours faithfully

For and on behalf of
Knight Frank Petty Limited

Thomas H M Lam
FRICS MHKIS MCIREA MHKSI RPS(GP)
RICS Registered Valuer
Senior Director
Head of Valuation & Consultancy

Note: Thomas H M Lam is a Chartered Surveyor who has extensive experiences in market research, valuation and consultancy in China, Hong Kong, Macau and Asia Pacific region (ex-Japan).

SUMMARY OF VALUES

Group I — The property held by the Company for investment in Hong Kong

	Property	Market value in existing state as at 31 August 2014
1.	Flat B on 5th Floor of Tower 6 and Car Parking Space No. 17 on Car Park A, One Beacon Hill No. 1 Beacon Hill Road Beacon Hill Kowloon Hong Kong (107/80,444th equal and undivided shares of and in New Kowloon Inland Lot No. 6277)	HK$22,000,000
	Total of Group I	**HK$22,000,000**

Group II — The property held by the Company for investment in the PRC

2.	Portion of CTS Tower, Nos. 828, 846 and 868 Changshou Road Putuo District Shanghai The People's Republic of China (Lot no. Putuo District, Changshou Road, Street 2 Jie Fang 24/1 Qiu)	RMB766,000,000
	Total of Group II	**RMB766,000,000**

VALUATION REPORT

Group I — The property held by the Company for investment in Hong Kong

	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 August 2014
1.	Flat B on 5th Floor of Tower 6 and Car Parking Space No. 17 on Car Park A, One Beacon Hill, No. 1 Beacon Hill Road, Beacon Hill, Kowloon, Hong Kong 107/80,444th equal and undivided shares of and in New Kowloon Inland Lot No. 6277	One Beacon Hill is a large scale private residential development consisting of sixteen multi-storey residential blocks, namely Towers 1 to 19 (Tower numberings 4, 13 and 14 are omitted), erected over a multi-level entrance/landscaping/carparking/club house podium completed in 2004 and Tower 6 is a 12-storey residential tower. The property comprises a domestic unit ie Flat B on 5th Floor of Tower 6 and a covered private car parking space No. 17 on Car Park A within the development. As per the developer's sales brochure, the saleable area of the domestic unit is approximately 102.10 sq m (1,099 sq ft). New Kowloon Inland Lot No. 6277 is held under Conditions of Sale No. 12535 for a term of 50 years commencing from 30 June 1999. The annual Government rent payable for the property is at 3% of the rateable value for the time being of the property.	As advised by the registered owner, as at the Valuation Date, the property was let under a tenancy for a term of two years expiring on 14 July 2016 at a monthly rental of HK$45,000 inclusive of rates, government rent and management fees.	HK$22,000,000

Notes:

1. The registered owner of the property was China Steel Case (CAMP) Co Limited as at the Valuation Date. As advised by the Company, China Steel Case (CAMP) Co Limited is a wholly-owned subsidiary of the Company.

2. As at the Valuation Date, the property was subject to the following encumbrances as registered in the Land Registry:

   (i) Occupation Permit No KN 3/2004(OP) vide memorial no UB9133867 dated 9 February 2004.

   (ii) Certificate of Compliance (Re: from District Lands Office, Kowloon East Lands Department) vide memorial no UB9292068 dated 29 July 2004.

   (iii) Deed of Mutual Covenant incorporating a Management (Re: Agreement with plans) in favour of Goodwell property Management Limited "Manager" vide memorial no UB9312133 dated 5 August 2004.

   (iv) Legal Charge/Mortgage, Rental Assignment and Tripartite Second Legal Charge/Mortgage all in favour of Citic Bank International Limited vide memorial nos 10112403150091, 10112403150108 and 10112403150114 respectively all dated 28 October 2010.

3. The property was situated within an area zoned for "Residential (Group C) 8" uses under the Draft Kowloon Tong Outline Zoning Plan No S/K18/18 exhibited on 20 December 2013 as at the Valuation Date.

Group II — The property held by the Company for investment in the PRC

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 August 2014
2.	Portion of CTS Tower Nos. 828, 846 and 868 Changshou Road Putuo District Shanghai The People's Republic of China (Lot no. Putuo District, Changshou Road, Street 2 Jie Fang 24/1 Qiu)	CTS Tower (the "Development") is a 24-storey office building erected on a 3-storey retail podium with an approximate total gross floor area of 31,697.17 sq m (341,188 sq ft), completed in 2006. The site area of the Development is approximately 24,819.00 sq m (267,152 sq ft). The Development is located at Putuo District in Shanghai and situated at Changshou Road. The area is a traditional residential and commercial area. Properties in the vicinity are mainly medium to high-rise developments. It takes about 15 minutes driving distance to People's Square of Shanghai. The property comprises the whole retail portion, Levels 4 to 21 and Levels 23 to 27 of the office portion of the Development. The approximate gross floor area of the property is listed as follows: **Use** / **Gross Floor Area (sq m)** Retail 4,864.83 Office 25,732.83 **Total:** 30,597.66 The land use rights of the property have been granted for terms of 40 year and 50 year both commencing on 3 September 2001 for retail and office uses respectively.	According to the information provided, the retail portion of the property was fully let under various tenancies yielding a total monthly rental of approximately RMB1,000,000 with the last term expiring in May 2020 whilst the office portion with a total gross floor area of approximately 20,777.02 sq m was let under various tenancies with the last term expiring in March 2022, yielding a total monthly rental of approximately RMB2,240,000 exclusive of management fee and charges. The remaining office portion of the property was vacant.	RMB766,000,000

Notes:

1. Pursuant to 24 Real Estate Ownership Certificates all issued by Shanghai Housing and Land Resources Administrative Bureau and dated on 13 December 2007, the land use rights of the property with a site area of 24,819.00 sq m and the building ownership rights of the property were vested in Eastlink International Investment Inc, a wholly-owned subsidiary of the Company. Details of the Real Estate Ownership Certificates are as follows:

Certificate Nos.	Land Use	Expiry Date	Gross Floor Area (sq m)	Portion	Use
Hu Fang Di Pu Zi (2007)Di 037052	Composite use	2 September 2041	4,864.83	L1-L3	Retail
Hu Fang Di Pu Zi (2007)Di 037054	Composite use	2 September 2051	934.64	402	Office
Hu Fang Di Pu Zi (2007)Di 037120	Composite use	2 September 2051	1,159.92	L5	Office
Hu Fang Di Pu Zi (2007)Di 037136	Composite use	2 September 2051	1,159.92	L6	Office
Hu Fang Di Pu Zi (2007)Di 037125	Composite use	2 September 2051	1,159.92	L7	Office
Hu Fang Di Pu Zi (2007)Di 037127	Composite use	2 September 2051	1,159.92	L8	Office
Hu Fang Di Pu Zi (2007)Di 037123	Composite use	2 September 2051	1,159.92	L9	Office
Hu Fang Di Pu Zi (2007)Di 037121	Composite use	2 September 2051	1,159.92	L10	Office
Hu Fang Di Pu Zi (2007)Di 037042	Composite use	2 September 2051	1,159.92	L11	Office
Hu Fang Di Pu Zi (2007)Di 037046	Composite use	2 September 2051	1,159.92	L12	Office
Hu Fang Di Pu Zi (2007)Di 037138	Composite use	2 September 2051	1,159.92	L13	Office
Hu Fang Di Pu Zi (2007)Di 037139	Composite use	2 September 2051	1,159.92	L14	Office
Hu Fang Di Pu Zi (2007)Di 037140	Composite use	2 September 2051	1,159.92	L15	Office
Hu Fang Di Pu Zi (2007)Di 037141	Composite use	2 September 2051	1,159.92	L16	Office
Hu Fang Di Pu Zi (2007)Di 037142	Composite use	2 September 2051	1,099.51	L17	Office
Hu Fang Di Pu Zi (2007)Di 037128	Composite use	2 September 2051	1,099.51	L18	Office
Hu Fang Di Pu Zi (2007)Di 037130	Composite use	2 September 2051	1,099.51	L19	Office
Hu Fang Di Pu Zi (2007)Di 037132	Composite use	2 September 2051	1,099.51	L20	Office
Hu Fang Di Pu Zi (2007)Di 037133	Composite use	2 September 2051	1,099.51	L21	Office
Hu Fang Di Pu Zi (2007)Di 037051	Composite use	2 September 2051	1,076.32	L23	Office
Hu Fang Di Pu Zi (2007)Di 037049	Composite use	2 September 2051	1,076.32	L24	Office
Hu Fang Di Pu Zi (2007)Di 036967	Composite use	2 September 2051	1,076.32	L25	Office
Hu Fang Di Pu Zi (2007)Di 036965	Composite use	2 September 2051	1,076.32	L26	Office
Hu Fang Di Pu Zi (2007)Di 036966	Composite use	2 September 2051	1,076.32	L27	Office

2. We have been provided with the Company's PRC legal adviser's opinion, which inter-alia, contains the following:

   (i) Eastlink International Investment Inc. legally owns the land use rights and building ownership rights of the portion of the Development as stated in the 24 Real Estate Ownership Certificates as mentioned in Note 1, and is entitled to occupy and use the said portion of the Development and to transfer, lease, mortgage or in other ways dispose of the land use rights and building ownership rights of the said portion of the Development without additional payment of any land grant fee or premium during the term of the land use rights;

   (ii) the property is subject to a mortgage in favour of Industrial Bank of Taiwan, Shanghai Commercial Bank, Taichung Bank and Bank of Kaohsiung for a consideration of HK$580,000,000 for a term from 28 November 2013 to 27 November 2018; and

   (iii) the property is not subject to any seizure, expropriation or any other encumbrances.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules and the Takeovers Code for the purpose of giving information with regard to the Group.

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

The Directors jointly and severally accept full responsibility for the accuracy of information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

2. SHARE CAPITAL AND SHARE OPTIONS

(a) Share capital of the Company

(i) As at the Latest Practicable Date

		HK$
Authorised:		
1,000,000,000	Shares	100,000,000.00
Issued and fully paid:		
421,515,251	Shares	42,151,525.10

(ii) Immediately upon completion of the Open Offer (assuming no further issue of new Shares on or before the Record Date)

		HK$
Authorised:		
1,000,000,000	Shares	100,000,000.00
Issued and fully paid:		
421,515,251	Shares as at the Latest Practicable Date	42,151,525.10
210,757,625	Offer Shares to be issued pursuant to the Open Offer	21,075,762.50
632,272,876	Shares following completion of the Open Offer	63,227,287.60

(iii) Immediately upon completion of the Open Offer (assuming all the outstanding and exercisable Share Options (after taking into account the Option Undertakings) are exercised and no other issue of new Shares on or before the Record Date)

		HK$
Authorised:		
1,000,000,000	Shares	100,000,000.00
Issued and fully paid:		
421,515,251	Shares as at the Latest Practicable Date	42,151,525.10
19,093,000	new Shares to be issued pursuant to the exercise of all outstanding and exercisable Share Options	1,909,300.00
220,304,125	Offer Shares to be issued pursuant to the Open Offer	22,030,412.50
660,912,376	Shares following completion of the Open Offer	66,091,237.60

(b) Share Options

As at the Latest Practicable Date, the Company has the following outstanding Share Options:

2001 share option scheme

Name or category of participant	Date of grant	Exercise period	*Note*	Exercise price per Share	Number of Share Options as at Latest Practicable Date
Directors:					
Mr. Andrew Yao	13 September 2006	13 September 2007 to 12 September 2016		HK$0.90	1,500,000
Mr. Dong	13 September 2006	13 September 2007 to 12 September 2016		HK$0.90	200,000
Mr. Tam King Ching Kenny	19 June 2008	19 June 2008 to 18 June 2018		HK$0.78	1,000,000
Mr. Xu Lin Bao	19 June 2008	19 June 2008 to 18 June 2018		HK$0.78	1,000,000
Sub-total					3,700,000
Employees:					
In aggregate	13 September 2006	13 September 2007 to 12 September 2016		HK$0.90	100,000
In aggregate	18 September 2009	18 September 2011 to 17 September 2019	*1*	HK$0.586	752,000
In aggregate	13 October 2009	13 October 2009 to 12 October 2019		HK$0.504	10,500,000
Sub-total					11,352,000
Others:					
In aggregate	19 June 2008	19 June 2008 to 31 December 2014		HK$0.78	1,000,000
In aggregate	13 October 2009	13 October 2009 to 12 October 2019		HK$0.504	6,000,000
Sub-total					7,000,000
Total of 2001 share option scheme					22,052,000

2011 share option scheme

Name or category of participant	Date of grant	Exercise period	*Note*	Exercise price per Share	Number of Share Options as at Latest Practicable Date
Directors:					
Mr. Frank Muñoz	16 November 2012	16 November 2013 to 15 November 2022	*2*	HK$0.67	4,000,000
	27 November 2013	27 November 2013 to 26 November 2023	*3*	HK$1.30	4,000,000
Mr. Tse Lung Wa Teddy	27 November 2013	27 November 2013 to 26 November 2023		HK$1.30	1,000,000
Sub-total					9,000,000
Employees:					
In aggregate	16 November 2012	16 November 2012 to 15 November 2022	*4*	HK$0.67	2,480,000
	27 November 2013	27 November 2013 to 26 November 2023	*3*	HK$1.30	2,900,000
	17 December 2013	17 December 2013 to 16 December 2023	*5*	HK$1.30	300,000
Sub-total					5,680,000
Others:					
In aggregate	7 September 2012	1 August 2014 to 31 July 2016		HK$0.49	1,000
Total of 2011 share option scheme					14,681,000

Notes:

1. The Share Options were vested in three tranches, with each tranche covering one-third of the relevant options, i.e. exercisable to the extent of one-third of the relevant options and with the 1st, 2nd and 3rd tranche becoming exercisable from 18 of September in the years 2011, 2012 and 2013 respectively and the years onwards till 17 September 2019.

2. The Share Options were/will be vested in four tranches, with each tranche covering one-fourth of the relevant options, i.e. exercisable to the extent of one-fourth of the relevant options and with the 1st, 2nd, 3rd and 4th tranche becoming exercisable from 16 of November in the years 2013, 2014, 2015 and 2016 respectively and the years onwards till 15 November 2022.

3. The Share Options were/will be vested in four tranches, with each tranche covering one-fourth of the relevant options, i.e. exercisable to the extent of one-fourth of the relevant options and with the 1st, 2nd, 3rd and 4th tranche becoming exercisable from 27 of November in the years 2014, 2015, 2016 and 2017 respectively and the years onwards till 26 November 2023.

4. The Share Options were/will be vested in five tranches, with each tranche covering one-fifth of the relevant options, i.e. exercisable to the extent of one-fifth of the relevant options and with the 1st, 2nd, 3rd, 4th and 5th tranche becoming exercisable from 16 of November in the years 2012, 2013, 2014, 2015 and 2016 respectively and the years onwards till 15 November 2022.

5. The Share Options were/will be vested in four tranches, with each tranche covering one-fourth of the relevant options, i.e. exercisable to the extent of one-fourth of the relevant options and with the 1st, 2nd, 3rd and 4th tranche becoming exercisable from 17 of December in the years 2014, 2015, 2016 and 2017 respectively and the years onwards till 16 December 2023.

There has been no alternation to the authorised share capital of the Company since the end of its last financial year, being 31 March 2014. All of the Shares currently in issue rank pari passu in all respects with each other including, in particular, as to dividends, voting rights and capital. Except for a total number of 3,814,000 new Shares issued to certain employee(s) of the Group and/or others upon exercises of Share Options held by them between 1 April 2014 to Latest Practicable Date, since 31 March 2014 (being the date to which the latest published audited financial statements of the Company were made up) and up to the Latest Practicable Date, there had not been any new issue of Shares by the Company.

The Offer Shares to be allotted and issued will, when issued and fully paid, rank pari passu in all respects with the Shares then in issue.

No part of the share capital or any other securities of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares or Offer Shares or any other securities of the Company to be listed or dealt in on any other stock exchange.

As at the Latest Practicable Date, there was no arrangement under which future dividends were waived or agreed to be waived.

As at the Latest Practicable Date, no share or loan capital of the Company or any of its subsidiaries had been put under option or agreed conditionally or unconditionally to be put under option.

Save as disclosed above, the Company did not have any other derivatives, options, warrants and other convertible securities or rights convertible into Shares as at the Latest Practicable Date.

3. MARKET PRICE

The table below shows the closing prices of the Shares as recorded on the Stock Exchange on (i) the Last Trading Day; (ii) the last trading day of each of the six months immediately preceding the date of the Announcement and ending on the Latest Practicable Date; and (iii) the Latest Practicable Date.

Date	**Closing price per Share** *(HK$)*
31 March 2014	1.270
30 April 2014	1.270
30 May 2014	1.280
30 June 2014	1.450
31 July 2014	1.340
29 August 2014	1.330
24 September 2014 (Last Trading Day)	1.360
30 September 2014	1.140
20 October 2014 (Latest Practicable Date)	1.170

The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the period commencing on 24 March 2014 (being the six months immediately preceding the date of Announcement) and ending on the Latest Practicable Date were HK$1.450 per Share on 30 June 2014 and HK$1.140 per Share on 30 September 2014 respectively.

4. DISCLOSURE OF INTERESTS

(a) Directors and the chief executives of the Company

As at the Latest Practicable Date, so far as is known to any Director, the interests and short positions of each Directors or chief executives of the Company in the Shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules were as follows:

Long positions in Shares and Share Options

Name of Directors	Type of interest	Number of Shares held	Approximate percentage of issued share capital	Number of Share Options held	Aggregate interest
Mr. Andrew Yao	Interest of controlled corporations (Huge Top and the Underwriter) *(Notes 1 and 2)*	392,422,125	93.10%	—	392,422,125
	Beneficial owner *(Note 2)*	3,918,000	0.93%	1,500,000	5,418,000
		396,340,125	94.03%	1,500,000	397,840,125
Mr. Frank Muñoz	Beneficial owner	—	—	8,000,000	8,000,000
Mr. Dong	Beneficial owner	142,000	0.03%	200,000	342,000
Mr. Tam King Ching Kenny	Beneficial owner	—	—	1,000,000	1,000,000
Mr. Xu Lin Bao	Beneficial owner	—	—	1,000,000	1,000,000
Mr. Tse Lung Wa Teddy	Beneficial owner	—	—	1,000,000	1,000,000

Notes:

1. As at the Latest Practicable Date, Huge Top held 173,424,000 Shares. Mr. Andrew Yao and Ms. Miriam Yao are the two directors of Huge Top. Mr. Andrew Yao directly held approximately 11.90% and indirectly through the Underwriter owned approximately 42.86% of the issued shares of Huge Top and was entitled to exercise more than one-third of the voting power at general meetings of Huge Top.

2. Mr. Andrew Yao owned the entire issued share capital of the Underwriter. Pursuant to the Underwriting Agreement, the Underwriter will take up all Underwritten Shares, being 218,998,125 Offer Shares (assuming all the outstanding and exercisable Share Options (after taking into account the Option Undertakings) are exercised and no other issue of new Shares on or before the Record Date) if no other Qualifying Shareholders takes up any of their entitlements under the Open Offer (save for Mr. Andrew Yao who held 2,612,000 Shares as at the Latest Practicable Date and undertakes to take up his entitlement of 1,306,000 Offer Shares under the Open Offer).

Long positions in associated corporation — Huge Top

Name of Directors	Type of interest	Number of shares held	Approximate percentage of issued share capital
Mr. Andrew Yao	Interest of Controlled corporation (the Underwriter)	36	42.86%
	Beneficial owner	10	11.90%
		46	54.76%
Mr. Dong	Beneficial owner	13	15.49%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, chief executives of the Company and their associates had any interests or short positions in the Shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules.

(b) Interests of substantial Shareholders

As at the Latest Practicable Date, so far as is known to any Director, the following person(s) (other than the Directors or chief executives of the Company) had interests or short positions in the Shares or underlying shares or debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	Type of interest	Number of Shares held	Approximate percentage of issued share capital	Number of share options held	Aggregate interest
Huge Top	Beneficial owner	173,424,000	41.15%	—	173,424,000
The Underwriter	Beneficial owner *(Note)*	218,998,125	51.95%	—	218,998,125
	Interest of controlled corporation (Huge Top)	173,424,000	41.15%	—	173,424,000
		392,422,125	93.10%	—	392,422,125
Ms. Miriam Yao	Interest of controlled corporation (Huge Top)	173,424,000	41.15%	—	173,424,000
	Beneficial owner	2,000,000	0.47%	—	2,000,000
		175,424,000	41.62%	—	175,424,000

Note: Pursuant to the Underwriting Agreement, the Underwriter will take up all Underwritten Shares, being 218,998,125 Offer Shares (assuming all the outstanding and exercisable Share Options (after taking into account the Option Undertakings) are exercised and no other issue of new Shares on or before the Record Date) if no other Qualifying Shareholders takes up any of their entitlements under the Open Offer (save for Mr. Andrew Yao who undertakes to take up his entitlement under the Open Offer).

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other persons (other than the Directors or chief executives of the Company) who had interests or short positions in the Shares or underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

5. ADDITIONAL DISCLOSURE OF INTERESTS AND DEALINGS IN SHARES

As at the Latest Practicable Date,

(a) save for the intention in relation to the charge over the shares in Huge Top held by Mr. Andrew Yao and/or the Underwriter to Shanghai Commercial Bank for financing the underwriting obligation of the Underwriter under the Underwriting Agreement, there was no agreement, arrangement or understanding (including any compensation arrangement) between the Underwriter or any persons acting in concert with it and other persons in relation to the transfer, charge or pledge of the Shares that may be issued and allotted to the Underwriter or any persons acting in concert with it under the Open Offer or as a result of any obligation under the Underwriting Agreement.

(b) save as disclosed in the paragraph headed "Implication under the Takeovers Code and Whitewash Waiver" in the letter from the Board of this circular, none of the Underwriter and persons acting in concert with it held, owned or controlled any other Shares, convertible securities, warrants, options or derivatives of the Company. In addition, none of the Underwriter and persons acting in concert with it had dealt for value in any Shares, convertible securities, warrants, options or derivatives of the Company during the period beginning 6 months prior to 24 September 2014 (being the date of the Announcement) and ending on the Latest Practicable Date.

(c) save as disclosed in the paragraph headed "Implication under the Takeovers Code and Whitewash Waiver" in the letter from the Board of this circular, none of the directors of the Underwriter was interested in any Shares, convertible securities, warrants, options or derivatives in the Company or similar rights which are convertible or exchangeable into any Shares. In addition, none of the directors of the Underwriter has dealt in any shares, convertible securities, warrants, options or derivatives of the Company during the period beginning 6 months prior to 24 September 2014 (being the date of the Announcement) and ending on the Latest Practicable Date.

(d) no person had irrevocably committed themselves to vote for or against the resolutions to be proposed at the SGM to approve the Open Offer, the Underwriting Agreement and the Whitewash Waiver.

(e) save for Mr. Andrew Yao who has irrevocably undertaken to take up his entitlement under the Open Offer, no person had irrevocably committed themselves to accept or reject their entitlements under the Open Offer.

(f) the Underwriter or persons acting in concert with it did not have any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with any other persons.

(g) none of the Underwriter or persons acting in concert with it has borrowed or lent any Shares, convertible securities, warrants, options or derivatives in the Company or similar rights which are convertible or exchangeable into Shares to any person.

(h) save as disclosed in the paragraph headed "Disclosure of Interests" in this appendix, none of the Directors was interested in any Shares, convertible securities, warrants, options or derivatives of the Company or similar rights which are convertible or exchangeable into any Shares. In additional, none of the Directors had dealt for value in any Shares, convertible securities, warrants, options or derivatives of the Company during the period beginning 6 months prior to 24 September 2014 (being the date of the Announcement) and ending on the Latest Practicable Date.

(i) save for the shares in the Underwriter held by Mr. Andrew Yao, none of the Company and the Directors held any shares, convertible securities, warrants, options or derivatives of the Underwriter or similar rights which are convertible or exchangeable into shares of the Underwriter. None of them has dealt for value in any shares, convertible securities, warrants, options or derivatives of the Underwriter during the period beginning 6 months prior to 24 September 2014 (being the date of the Announcement) and ending on the Latest Practicable Date.

(j) save for the Shares held and dealt for the accounts of the respective non-discretionary clients by the brokerage division of a fellow subsidiary of Celestial Capital Limited, the financial adviser to the Company, none of (i) the subsidiaries of the Company, (ii) the pension fund of the Company or of any of its subsidiaries, nor (iii) any advisers to the Company as specified in class (2) of the definition of "associate" under the Takeovers Code (other than persons enjoying exempt principal trader status under the Takeovers Code), had any interest in the Shares, convertible securities, warrants, options or derivatives of the Company, and none of them had dealt for value in any securities of the Company beginning on 24 September 2014 (being the date of the Announcement) and ending on the Latest Practicable Date.

(k) no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate in the Takeovers Code and none of them had dealt for value in any securities of the Company for the period beginning on 24 September 2014 (being the date of the Announcement) and ending on the Latest Practicable Date.

(l) no Shares, convertible securities, warrants, options or derivatives of the Company were managed on a discretionary basis by fund managers (other than exempt fund managers) connected with the Company, nor had any such fund managers dealt for value in any securities of the Company for the period beginning on 24 September 2014 (being the date of the Announcement) and ending on the Latest Practicable Date.

(m) save for Huge Top, Mr. Andrew Yao, Ms. Miriam Yao and Mr. Dong who are persons acting in concert with the Underwriter and hence will abstain from voting on the relevant resolutions in respect of the Open Offer, the Underwriting Agreement and the Whitewash Waiver at the SGM, no Directors held any Shares to vote for the resolutions to be proposed at the SGM to approve the Open Offer, the Underwriting Agreement and the Whitewash Waiver.

(n) save for Mr. Andrew Yao who has irrevocably undertaken to take up his entitlement under the Open Offer, Mr. Dong had not expressed his intention to accept or reject his entitlement under the Open Offer.

(o) none of the Company nor any Directors has borrowed or lent any Shares, convertible securities, warrants, options or derivatives in the Company or similar rights which are convertible or exchangeable into Shares.

(p) there was no benefit to be given to any Directors as compensation for loss of office in any member of the Group or otherwise in connection with the Open Offer, the Underwriting Agreement and the Whitewash Waiver.

(q) there was no agreement, arrangement or understanding (including any compensation arrangement) (i) between the Underwriter or any persons acting in concert with it and any of the Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Open Offer, the Underwriting Agreement and the Whitewash Waiver; and (ii) between any Directors and any other persons which is conditional on or dependent upon the outcome of the Open Offer, the Underwriting Agreement and the Whitewash Waiver.

(r) save for the Underwriting Agreement to which Mr. Andrew Yao has a material personal interest, there was no material contract entered into by the Underwriter or any persons acting in concert with it in which any Directors has a material personal interest.

6. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with the Company or any of its subsidiaries or associated companies:

(i) which (including both continuous and fixed term contracts) have been entered into or amended within 6 months prior to the date of the Announcement;

(ii) which are continuous contracts with a notice period of 12 months or more;

(iii) which are fixed term contracts with more than 12 months to run irrespective of the notice period; or

(iv) which is not expiring or determinable by the employer within one year without payment of compensation other than statutory compensation.

7. MATERIAL CONTRACTS

As at the Latest Practicable Date, the following contracts (not being contracts entered into in the ordinary course of business carried on or intended to be carried on by the Group) were entered into by members of the Group within two years immediately preceding the date of the Underwriting Agreement, being 24 September 2014, and up to the Latest Practicable Date which are or may be material:

(i) the Underwriting Agreement;

(ii) the capital reduction agreement dated 25 June 2013 and the supplemental agreement dated 28 June 2013 entered into by VSC (China) Investments Limited, a wholly-owned subsidiary of the Company, Baosteel Development Co., Ltd. and Shanghai Bao Shun Chang International Trading Co., Ltd. ("Shanghai BSC") in relation to the capital reduction of Shanghai BSC, details of which was set out in the circular of the Company dated 29 July 2013;

(iii) the sale and purchase agreement dated 12 October 2013 entered into between VSC China Property Limited ("VSC Property"), a wholly-owned subsidiary of the Company, and China Travel Service (Holdings) Hong Kong Ltd. in relation to the acquisition (the "Acquisition") of the entire issued share capital of Eastlink International Investment Inc. ("Eastlink") and the repayment of a shareholder's loan at a consideration of approximately RMB708 million (equivalent to approximately HK$897 million), details of which was set out in the circular of the Company dated 18 November 2013;

(iv) the loan agreement dated 1 November 2013 relating to the term loan of HK$580 million entered into by Eastlink as the borrower; the Company and VSC Property as guarantors; Industrial Bank of Taiwan Co., Ltd. ("IBT") as arranger, agent and security trustee and IBT, among other banks, as the lenders to finance the Acquisition, details of which was set out in the circular of the Company dated 18 November 2013;

(v) the framework agreement dated 24 January 2014 entered into by, inter alia, Shanghai Property (No. 1) Holdings SRL, an associated company of the Company, in relation to the disposal of the entire registered capital of Changyu (Shanghai) Real Estate Management Co., Limited at the consideration of RMB420 million, details of which was set out in the announcement of the Company dated 24 January 2014; and

(vi) the sale and purchase agreement dated 17 September 2014 entered into by Green Success Global Limited, a wholly-owned subsidiary of the Company, and HT Steel (World) International Trade Holding Co., Limited in relation to the acquisition of the entire issued share capital of He Tai Steel Co., Limited at the consideration of HK$28 million, details of which was set out in the announcement of the Company dated 19 September 2014.

8. INTERESTS IN THE GROUP'S ASSETS OR CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE GROUP

As at the Latest Practicable Date, none of the Directors had any interest, directly or indirectly, in any asset which had been, since 31 March 2014 (being the date to which the latest published audited financial statements of the Company were made up) acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, save for the Underwriting Agreement entered into between the Company and the Underwriter, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group which was subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Group.

9. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and their respective associates had any directly or indirectly interest in a business which competes or may compete with the business of the Group.

10. MATERIAL LITIGATION

As at the Latest Practicable Date, none of the members of the Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

11. EXPENSES

The expenses in connection with the Open Offer, including financial advisory fees, underwriting commission, printing, registration, translation, legal and accountancy charges are estimated to be approximately HK$5.6 million (assuming no further new Shares on or before the Record Date) to HK$5.7 million (assuming all the outstanding and exercisable Share Options (after taking into amount the Option Undertakings) are exercised and no other issue of new Shares on or before the Record Date), which are payable by the Company.

12. EXPERTS AND CONSENTS

The following is the qualifications of the experts who have been named in this circular or have given opinions, letters or advice contained in this circular:

Name	Qualifications
Vinco Capital	A licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
PricewaterhouseCoopers	Certified Public Accountants
Knight Frank Petty Limited	Independent Property Valuer
Zhong Lun Law Firm	PRC Legal Advisers

As at the Latest Practicable Date, none of the above experts had any shareholding, directly or indirectly, in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscriber for shares in any member of the Group; or had any interest, direct or indirect, in any asset which since 31 March 2014, the date to which the latest published audited financial statements of the Company were made up, had been acquired or disposed of by or leased to any member of the Group or was proposed to be acquired or disposed of by or leased to any member of the Group.

The letter or report of the above experts are given as of the date of this circular for incorporation herein. Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter or report and/or references to its name, in the form and context in which they appear in this circular.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available (i) for inspection during normal business hours from 9:00 a.m. to 5:00 p.m. on any business day (except Saturdays, Sundays and public holidays) at Rooms 4903-7, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong; (ii) on the website of the SFC at www.sfc.hk; and (iii) on the Company's website at www.vschk.com from the date of this circular up to and including the date of completion of the Open Offer:

(a) this circular;

(b) the memorandum of association and bye-laws of the Company;

(c) the memorandum and articles of association of the Underwriter;

(d) the annual reports of the Company containing audited consolidated financial statements of the Company for the two financial years ended 31 March 2013 and 2014;

(e) the letter from the Board to the Shareholders, the text of which is set out in the section headed "Letter from the Board" in this circular;

(f) the letter of recommendation from the Independent Board Committee to the Independent Shareholders, the text of which is set out in the section headed "Letter from the Independent Board Committee" in this circular;

(g) the letter of advice from Vinco Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out in the section headed "Letter from Vinco Capital" in this circular;

(h) the report on the unaudited pro forma financial information of the Group prepared by PricewaterhouseCoopers, the text of which is set out in Appendix II to this circular;

(i) the valuation report on the property interests of the Group prepared by Knight Frank Petty Limited, the text of which is set out in Appendix III to this circular;

(j) the material contracts referred to in paragraph headed "7. Material contracts" in this appendix;

(k) the written consents referred to in paragraph headed "12. Experts and consents" in this appendix; and

(l) the irrevocable undertakings given by Huge Top, Mr. Andrew Yao, Mr. Dong, Mr. Frank Muñoz, Mr. Tam King Ching Kenny, Mr. Xu Lin Bao and Mr. Tse Lung Wa Teddy as set out in the paragraph headed "Irrevocable undertakings" in the letter from the Board of this circular.

14. PARTICULAR OF DIRECTORS

Executive Directors & senior management

Mr. Yao Cho Fai Andrew, aged 49, is the chairman of the Company. Mr. Yao joined the Company in 1994 as director. He graduated from the University of California, Berkeley and Harvard Graduate School of Business. He serves as the Hong Kong Deputy to the 12th National People's Congress (NPC) of PRC, the standing committee member of All-China Youth Federation, the chairman of Hongkong-Shanghai Economic Development Association, the Board Member of Lingnan University in Hong Kong, the vice-chairman of Shanghai Federation of Industry & Commerce and the board member of Fudan University in Shanghai. He was awarded "Young Industrialist Award of Hong Kong" in 2004. He was awarded Justice of Peace by HKSAR in 2008. Mr. Yao is an independent non-executive director of Kader Holdings Company Limited which is a company listed on the main board of the Stock Exchange. Mr. Yao is the chairman of the Nomination Committee and a member of the Remuneration Committee of the Company. He also acts as a director of certain subsidiaries of the Company.

Mr. Frank Muñoz, aged 45, is the chief executive officer of the Company. Mr. Muñoz joined the Group in June 2011. He holds a bachelor's degree of Science in Electronics Engineering Technology. He was the president of Ryerson China Limited. Mr. Muñoz joined Ryerson Inc. in 1988 and has held various sales and operating positions. In 1994, he relocated to Mexico where he held positions in sales and operations. From 1998 to 2006, he was the president of Ryerson Tull Mexico SA de CV and executive vice president and the chief operating officer of Collado S.A. de C.V. (North Region), a joint venture between Ryerson Tull Inc. and Grupo Collado. In 2006, he moved to China as the vice president of international of Ryerson Inc. and president of Ryerson China. He was also named president and CEO of VSC-Ryerson China Limited, a joint venture between Ryerson Inc. and VSC. Mr. Muñoz was also a member of the executive and remuneration committees and a director from April 2006 to June 2009, and the chairman of the board from October 2007 to June 2009 of Tata Ryerson India Limited (a joint venture of Ryerson Inc. and Tata Steel Ltd.). He also acts as a director of certain subsidiaries of the Company.

Non-executive Director

Mr. Dong Sai Ming Fernando, aged 52, is a non-executive Director of the Company. Mr. Dong joined the Group in 1987. He has over twenty years' experience in international trading. Mr. Dong was extensively involved in warehouse management, property investment and the China operations of the Group. He had also been assisting the Group to establish new manufacturing facilities in both Hong Kong and Mainland China. Mr. Dong is also a member of the Chinese People's Political Consultative Conference Guangzhou Huangpu District Committee.

Independent non-executive Directors

Mr. Tam King Ching Kenny, aged 65, he joined the Group in September 2004. He is a practising Certified Public Accountant in Hong Kong. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of the Chartered Professional Accountants of Ontario, Canada. Mr. Tam is serving as a member of the Restructuring and Insolvency Faculty Executive Committee, the Small and Medium Practioners Leadership Panel and the Insolvency SD Vetting Committee in the Hong Kong Institute of Certified Public Accountants. He was also a past President of The Society of Chinese Accountants and Auditors. Mr. Tam also serves as an independent non-executive director of six other listed companies on the main board of the Stock Exchange, namely, CCT Fortis Holdings Limited, Kingmaker Footwear Holdings Limited, Shougang Concord Grand (Group) Limited, Starlite Holdings Limited, West China Cement Limited and BeijingWest Industries International Limited. Mr. Tam was an independent non-executive director of North Asia Strategic Holdings Limited, a company listed on the GEM board of the Stock Exchange from September 2004 to February 2013. Mr. Tam is the chairman of the Audit Committee and a member of the Remuneration Committee and the Nomination Committee of the Company.

Mr. Xu Lin Bao, aged 65, joined the Group in April 2006. He holds an EMBA degree from Fudan University, Shanghai. He is a senior qualified economist. Mr. Xu is currently the vice chairman of the Institute of Real Estate Shanghai Academy of Social Sciences. He served as the standing executive of China Real Estate Association (the 4th and 5th session), the chairman of operation and management professional committee of China Real Estate Association (the 4th and 5th session), the chairman of Shanghai Housing and Land Group, the vice chairman of Shanghai Real Estate Trade Association (the 5th and 6th session) and the chairman of executives of Yi-ju China Real Estate Research Center. He is the chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee of the Company.

Mr. Tse Lung Wa Teddy, aged 50, joined the Group in August 2012. He graduated with BA (Hon.) from University of Hong Kong in 1987, major in Economics and Philosophy. He is a business and commercial professional with extensive work experience gained in international steel arena and particularly in China region. He worked for Cargill Hong Kong Limited since 1989 till March 2012 and his last position was senior vice president of Cargill Ferrous International. He spent most of his time in steel sector. He managed different trading books for various ferrous commodities globally, both physical and derivative markets and cross products arbitrage, business strategy and business risk management. He has successful track record of driving business growth to lead Cargill steel trading become the global market leader in the industry, particularly in commodities such as iron and steel related and mineral and resource international trading and distribution. He also worked as Vice President of Cargill Energy, Transportation and Industrial Asia business unit for China market. Mr. Tse is the vice chairman of Smart Timing Steel Limited from September 2012 till now. Mr. Tse is a member of the Audit Committee and the Remuneration Committee of the Company. He is also the chairman of the Corporate Practice Committee of the Company.

Mr. Yeung Wing Sun Mike, aged 61, joined the Group in March 2014. He has over 40 years' working experience in the banking industry. He began his career with the HSBC Group in 1972 and advanced himself in the organisation by taking up different positions under various business streams including personal banking, sales and marketing, branch operation and trade service. Since 2001, Mr. Yeung was relocated to Shanghai and took up the role of Branch Manager of HSBC Shanghai. In June 2006, he was seconded to Hang Seng Bank (China) Limited and appointed as the Head of Personal Financial Service and Wealth Management. He assumed the role of Deputy Chief Executive and Head of Retail Banking and Wealth Management in May 2007. Mr. Yeung retired from HSBC Group in January 2014. Mr. Yeung is a member of Chinese People's Political Consultative Conference Committee in Shanghai and the Distinguished Advisory President of Hong Kong Chamber of Commerce in Shanghai. He was awarded the "Magnolia Gold Award" presented by the Shanghai Municipal government. Mr. Yeung is a member of the Audit Committee of the Company.

15. CORPORATE INFORMATION

Head office and principal place of business	Rooms 4903-7 Hopewell Centre 183 Queen's Road East Wanchai, Hong Kong
Registered office	Clarendon House 2 Church Street Hamilton HM 11 Bermuda
Auditor	PricewaterhouseCoopers Certified Public Accountants 22/F, Prince's Building Central, Hong Kong
Principal bankers	Australia & New Zealand Banking group Ltd. 22/F., Three Exchange Square 8 Connaught Place Central, Hong Kong Bank of China (Hong Kong) Limited (Hong Kong Branch) 1 Garden Road Central, Hong Kong

China CITIC Bank International Limited
9/F., Lippo Centre, Tower 1
Admiralty, Hong Kong

China Minsheng Banking Corp., Ltd. (Hong Kong Branch)
36/F., Bank of America Tower
12 Harcourt Road
Central, Hong Kong

Chong Hing Bank Limited
24, Des Voeux Road Central
Central, Hong Kong

CTBC Bank Co., Ltd. (Hong Kong Branch)
28/F., Two International Finance Centre
8 Finance Street
Central, Hong Kong

DCBC Wing Hang Bank Limited
161 Queen's Road Central
Hong Kong

Fubon Bank (Hong Kong) Limited
Fubon Bank Building
38 Des Voeux Road Central
Hong Kong

Industrial Bank of Taiwan Co., Ltd.
Unit 705, Bank of America Tower
Admiralty, Hong Kong

Shanghai Commercial Bank Ltd.
Basement, Manning House
48 Queen's Road Central
Hong Kong

Standard Chartered Bank (Hong Kong) Limited
1/F., Commercial Podium of Standard Chartered Bank Building
4-4A Des Voeux Road Central
Hong Kong

Principal share registrar and transfer agent	MUFG Fund Services (Bermuda) Limited The Belvedere Building 69 Pitts Bay Road Pembroke HM08 Bermuda
Hong Kong branch share registrar and transfer office	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Wanchai, Hong Kong
Authorised representatives	Mr. Frank Muñoz Rooms 4903-7, Hopewell Centre 183 Queen's Road East Wanchai, Hong Kong Ms. Lam Yee Fan Rooms 4903-7, Hopewell Centre 183 Queen's Road East Wanchai, Hong Kong
Company secretary	Ms. Lam Yee Fan *(An associate member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators)*

16. PARTIES INVOLVED IN THE OPEN OFFER AND WHITEWASH WAIVER

Underwriter	Perfect Capital International Corp. P.O. Box 3151, Road Town Tortola, British Virgin Islands

Persons acting in concert	Huge Top Industrial Ltd. Akara Bldg., 24 De Casto St., Wickhams Cay 1, P.O. Box 3136, Road Town, Tortola, British Virgin Islands
	Mr. Yao Cho Fai Andrew Rooms 4903-7, Hopewell Centre 183 Queen's Road East Wanchai, Hong Kong
	Ms. Yao Che Li Miriam Rooms 4903-7, Hopewell Centre 183 Queen's Road East Wanchai, Hong Kong
	Mr. Dong Sai Ming Fernando Rooms 4903-7, Hopewell Centre 183 Queen's Road East Wanchai, Hong Kong
Financial adviser to the Company	Celestial Capital Limited 21/F, Low Block Grand Millennium Plaza 181 Queen's Road Central Hong Kong
Independent financial adviser to the Independent Board Committee and the Independent Shareholders	Grand Vinco Capital Limited Units 4909-10, 49/F The Center 99 Queen's Road Central Hong Kong
Legal advisers to the Company	*As to Hong Kong Law* Cheung & Lee in association with Locke and Lord (HK) LLP 21/F., Bank of China Tower 1 Garden Road Central, Hong Kong

	As to PRC Law Zhong Lun Law Firm Level 10 and 11 Two IFC No. 8 Century Ave Pudong New Area, Shanghai, PRC
	As to Bermuda Law Conyers Dill & Pearman Limited 2901 One Exchange Square 8 Connaught Place Central, Hong Kong
Reporting accountant of the Company	PricewaterhouseCoopers Certified Public Accountants 22/F, Prince's Building Central, Hong Kong
Property valuer of the Company	Knight Frank Petty Limited 4/F., Shun On Centre 6-8 Harbour Road Wanchai, Hong Kong

17. MISCELLANEOUS

In the event of inconsistency, the English text of this circular and the accompanying form of proxy shall prevail over the Chinese text.

VSC万顺昌

VAN SHUNG CHONG HOLDINGS LIMITED

Website: http://www.vschk.com

(Incorporated in Bermuda with limited liability)

(Stock Code: 1001)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (the "**Meeting**") of Van Shung Chong Holdings Limited (the "**Company**") will be held at 10:30 a.m. on Wednesday, 12 November 2014 at Rooms 4903-7, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for the purposes of considering and, if thought fit, passing the following resolutions which will be proposed as ordinary resolutions of the Company. Unless otherwise indicated, capitalised terms used in this notice and the following resolutions shall have the same meanings as those defined in the circular of the Company dated 23 October 2014 (the "**Circular**") of which the notice convening the Meeting forms part.

ORDINARY RESOLUTIONS

1. "**THAT** conditional upon fulfillment of the conditions of the Underwriting Agreement made between the Company and the Underwriter (a copy of which has been produced to this meeting marked "A" and signed by the chairman of this meeting for the purpose of identification):

   (a) the allotment and issue of not less than 210,757,625 Offer Shares and not more than 220,304,125 Offer Shares at the Subscription Price of HK$0.50 per Offer Share to the Qualifying Shareholders whose name appear on the register of members of the Company on Monday, 24 November 2014 (or such other dates as the Company and the Underwriter may agree to be the record date for such Open Offer) other than the Excluded Shareholders on the basis of one Offer Share for every two Shares held on the Record Date and on and subject to such terms and conditions as may be determined by the Directors be and is hereby approved;

(b) any one Director be and is hereby authorised to allot and issue the Offer Shares pursuant to or in connection with the Open Offer notwithstanding that the same may be offered, allotted or issued otherwise than pro rata to the Qualifying Shareholders and, in particular, the Directors may make such exclusion or other arrangements in relation to the Excluded Shareholders as they deem necessary or expedient having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong;

(c) the entering into of the Underwriting Agreement by the Company be and is hereby approved, confirmed and ratified and the performance of the transactions contemplated thereunder by the Company (including but not limited to the arrangements for taking up of the underwritten Offer Shares, if any, by the Underwriters) be and are hereby approved;

(d) the absence of arrangements for application for the Offer Shares by the Qualifying Shareholders in excess of their entitlements under the Open Offer be and is hereby approved; and

(e) any one Director be and is hereby authorised to sign and execute such documents and do all such acts and things incidental to the Open Offer or as he considers necessary, desirable or expedient in connection with the implementation of or giving effect to the Open Offer, the Underwriting Agreement and the transactions contemplated thereunder or in this resolution."

2. "**THAT** subject to the Executive granting to the Underwriter and the persons acting in concert with it the Whitewash Waiver and the satisfaction of any condition(s) attached to the Whitewash Waiver and such other necessary waiver or consent of the Executive for the transactions contemplated under the Open Offer, the waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code waiving any obligation on the part of the Underwriter and the persons acting in concert with it to make a mandatory general offer for all the issued securities of the Company (including the outstanding and exercisable Share Options) not already owned or

agreed to be acquired by the Underwriter and the persons acting in concert with it, which would otherwise arise under Rule 26.1 of the Takeovers Code as result of the fulfillment of the obligations under the Underwriting Agreement be and is hereby approved."

By order of the Board
Van Shung Chong Holdings Limited
Lam Yee Fan
Company Secretary

Hong Kong, 23 October 2014

Notes:

1. Any member entitled to attend and vote at the above meeting is entitled to appoint one or more than one proxy to attend and vote on his behalf. A proxy need not to be a member of the Company.

2. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority (if any) under which it is signed, or a certified copy of that power of authority, at Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time for holding the meeting or adjourned meeting.

3. The resolutions put to vote at the meeting will be decided by way of poll.

As at the date hereof, the Board comprises the following members:

Executive Directors	Mr. Yao Cho Fai Andrew *(Chairman)* Mr. Frank Muñoz *(Chief Executive Officer)*
Non-executive Director	Mr. Dong Sai Ming Fernando
Independent non-executive Directors	Mr. Tam King Ching Kenny Mr. Xu Lin Bao Mr. Tse Lung Wa Teddy Mr. Yeung Wing Sun Mike