

# Report of the Directors

The board of directors ("Board") of Van Shung Chong Holdings Limited ("VSC") are pleased to present their annual report together with the audited accounts of VSC and its subsidiaries (together the "VSC Group") for the year ended 31st March 2005.

## PRINCIPAL ACTIVITIES

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

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

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st March 2005, the five largest customers of the VSC Group accounted for less than 30% of the VSC Group's total turnover, and the five largest suppliers of the VSC Group accounted for less than 30% of the VSC Group's total purchases.

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

## RESULTS AND APPROPRIATIONS

Details of the VSC Group's results for the year ended 31st March 2005 are set out in the consolidated profit and loss account on page 78 of this annual report.

VSC has not declared any interim dividend during the year and the Board recommend the payment of a final cash dividend of HK2.2 cents per share. Total cash dividend payable for the year ended 31st March 2005 will amount to HK2.2 cents or approximately HK\$8,109,000 (2004: HK\$21,180,000).

## SHARE CAPITAL, WARRANTS AND SHARE OPTIONS

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

## RESERVES AND RETAINED PROFIT

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

As at 31st March 2005, approximately HK\$53,986,000 (2004: HK\$53,986,000) of VSC's reserves and approximately HK\$13,334,000 (2004: HK\$21,530,000) of VSC's retained profit were available for distribution to its shareholders.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither VSC nor any of its subsidiaries has purchased, sold or redeemed any of VSC's listed securities during the year ended 31st March 2005.

## PRE-EMPTIVE RIGHTS

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

## FIXED ASSETS AND INVESTMENT PROPERTIES

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

## SUBSIDIARIES AND ASSOCIATES

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

## BANK LOANS

Particulars of bank loans as at 31st March 2005 are set out in Notes 24 and 26 to the accompanying accounts.

## PENSION SCHEMES

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

## CHARITABLE DONATIONS

During the year, the VSC Group made charitable donations of approximately HK\$170,000 (2004: HK\$6,000).

## DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

### EXECUTIVE DIRECTORS

Mr. Andrew Cho Fai Yao, *Chairman*

Mr. Fernando Sai Ming Dong

Ms. Miriam Che Li Yao, *Deputy Chairman*

*(Resigned on 11th August 2004)*

Mr. Johnson Sai Hou Ho

*(Resigned on 28th March 2005)*

### NON-EXECUTIVE DIRECTOR

Dr. Shao You Bao

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Chow Yei Ching

Mr. Kenneth Woo Shou Ting

Mr. Harold Richard Kahler

Mr. Kenny King Ching Tam

*(Appointed on 30th September 2004)*

In accordance with VSC's Bye-law 86(2) and 87(1), Mr. Kenny King Ching Tam and Mr. Kenneth Woo Shou Ting will retire. Mr. Kenneth Woo Shou Ting will not offer himself for re-election, whereas Mr. Kenny King Ching Tam being eligible, offer himself for re-election at the forthcoming annual general meeting.

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

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31st March 2005, the interests and short positions of the Directors and chief executives of VSC in the shares of HK\$0.10 each in the capital of VSC ("Shares"), underlying shares and debentures of VSC or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the

"SFO")) which (a) were required to be notified to VSC and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or (c) were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") to be notified to VSC and the Stock Exchange, were as follows:

### (I) LONG POSITIONS IN SHARES AND OPTIONS OF VSC

Name	Nature of interest	Attributable interest to the Director	Number of Shares	Approximate percentage	Number of options (Note b)	Aggregate interest
Mr. Andrew Cho Fai Yao	- Corporate interest held by Huge Top (Note a)	deemed interest (indirectly)	173,424,000	47.05%	-	173,424,000
	- Personal interest	100% (directly)	1,614,000	0.44%	-	1,614,000
			175,038,000	47.49%	-	175,038,000
Mr. Fernando Sai Ming Dong	- Personal interest	100% (directly)	342,000	0.09%	300,000	642,000
Mr. Kenneth Woo Shou Ting	- Personal interest	100% (directly)	2,402,000	0.65%	-	2,402,000
Mr. Harold Richard Kahler	- Personal interest	100% (directly)	66,000	0.02%	-	66,000

*Notes:*

- a. As at 31st March 2005, Huge Top Industrial Ltd. ("Huge Top") holds 173,424,000 Shares. Mr. Andrew Cho Fai Yao is one of the two directors of Huge Top. Mr. Andrew Cho Fai Yao directly holds approximately 11.91% and indirectly through Perfect Capital International Corp. ("Perfect Capital") owns approximately 42.86% of the issued shares of Huge Top and is entitled to exercise more than one-third of the voting power at general meetings of Huge Top. Mr. Andrew Cho Fai Yao owns the entire issued share capital of Perfect Capital. These interests of the aforesaid Director in the Shares were corporate interests.
- b. The interests of the Directors in the share options of VSC are separately disclosed in the section headed "Share Option Scheme" below.

**(II) LONG POSITIONS IN ASSOCIATED CORPORATION – HUGE TOP**

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

For the year ended 31st March 2005, VSC had complied the Model Code adopted on 31st March 2004 as the required standard against which Directors must measure their conduct regarding transactions in securities of VSC according to Appendix 10.1 of the Rules Governing the Listing of Securities on the Stock Exchange (“the Listing Rules”).

Save as disclosed above, as at 31st March 2005, none of the Directors, chief executives of VSC and their associates had any personal, family, corporate or other interests or short positions in the shares, underlying shares or debentures of VSC or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to VSC and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (include interests and short positions which they are taken or deemed to have under such provisions of SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code, to be notified to VSC and the Stock Exchange.

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

**DIRECTOR’S INTEREST IN CONTRACTS**

Save as disclosed in Note 2 to the accompanying accounts, no contracts of significance in relation to the VSC Group’s business to which VSC or any of its subsidiaries was a party and in which any of VSC’s Directors or members of its management had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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

Other than interests disclosed in the section headed "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, as at 31st March 2005, according to the

register of interests kept by VSC under section 336 of the SFO, the following entity has interests or short positions in the shares and underlying Shares of VSC which fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the VSC Group together with particulars of any options in respect of such capital:

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

Note: As at 31st March 2005, Huge Top held 173,424,000 Shares. Ms. Miriam Che Li Yao is one of the two directors of Huge Top while the remaining director of Huge Top is Mr. Andrew Cho Fai Yao who is the brother of Ms. Miriam Che Li Yao and therefore is deemed to be interested in these Shares through Huge Top.

Save as disclosed above, as at 31st March 2005, the Directors are not aware of any other persons (other than Directors or chief executives of VSC) who have interests or short positions in the shares, underlying shares or debentures of VSC or any associated corporations (within the meaning of Part XV of the SFO) which would fall to be disclosed to VSC under Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the VSC Group together with particulars of any options in respect of such capital.

## SHARE OPTION SCHEME

A share option scheme has been adopted by VSC since 12th November 2001 (the "Share Option Scheme") and VSC may grant options to the participants as set out in the Share Option Scheme. The terms of the Share Option Scheme are contained in a circular sent to shareholders of VSC in October 2001. Summary of the Share Option Scheme was as follows:

### 1. PURPOSE OF THE SHARE OPTION SCHEME

To provide incentives to participants to contribute to the VSC Group and/or to enable the VSC Group to recruit and/or to retain high-calibre employees and attract human resources that are valuable to the VSC Group.

**2. PARTICIPANTS OF THE SHARE OPTION SCHEME**

Employee/agent/consultant or representative, including any executive or non-executive Director, of any member of the VSC Group or any other person who satisfies the selection criteria as set out in the Share Option Scheme.

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

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

The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of VSC and/or its subsidiary must not exceed 30% of the Shares in issue from time to time. No options may be granted under any schemes of VSC or its subsidiary if this would result in the 30% limit being exceeded.

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

The total number of Shares issued and to be issued upon exercise of the options granted to each participant (including exercised, cancelled and outstanding options) within any twelve-month period under the Share Option Scheme and any other share option scheme(s) of VSC and/or any subsidiary must not exceed 1% of the number of Shares in issue.

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

Must not be more than ten years from the date of offer of grant of the option.

**6. THE MINIMUM PERIOD FOR WHICH AN OPTION MUST BE HELD BEFORE IT CAN BE EXERCISED**

No such minimum period specified and an option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be notified by the Board to each grantee.

**7. THE AMOUNT PAYABLE ON APPLICATION OR ACCEPTANCE OF THE OPTION AND THE PERIOD WITHIN WHICH PAYMENTS OR CALLS MUST OR MAY BE MADE OR LOANS FOR SUCH PURPOSES MUST BE PAID**

The acceptance of an option, if accepted, must be made within 28 days from the date on which the offer is made with a non-refundable payment of HK\$10 from the grantee to VSC.

**8. THE BASIS OF DETERMINING THE EXERCISE PRICE**

The exercise price of an option will be at least the highest of:

- a. the closing price of the Shares as state in the Stock Exchange's daily quotations sheet on the date of offer of the grant of the option, which must be a business day;
- b. the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of offer of the grant of the option; and
- c. the nominal value of the Shares.

## 9. THE REMAINING LIFE OF THE SHARE OPTION SCHEME

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

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

Name or category of participant	Date of grant	Exercise period	Exercise price per Share	Number of share options		
				Beginning of year '000	Lapsed during the year '000	End of year '000
<i>Director:-</i>						
Mr. Fernando Sai Ming Dong	19th September 2003	19th September 2005 to 18th September 2013	HK\$1.418	300	-	300
Sub-total				300	-	300
<i>Employees:-</i>						
In aggregate	2nd May 2003	2nd May 2003 to 1st May 2013	HK\$0.98	250	-	250
In aggregate	7th May 2003	7th May 2005 to 6th May 2013 (Note 2)	HK\$0.97	6,445	(545)	5,900
In aggregate	19th September 2003	19th September 2005 to 18th September 2013	HK\$1.418	2,000	-	2,000
Sub-total				8,695	(545)	8,150
<i>Others:-</i>						
In aggregate	2nd May 2003	2nd May 2003 to 1st May 2013	HK\$0.98	7,000	-	7,000
Sub-total				7,000	-	7,000
Total of Share Option Scheme				15,995	(545)	15,450

Notes:

1. *For the Share Option Scheme, the vesting period of the share options is from the date of the grant until the commencement of the exercise period.*
2. *The options to subscribe for Shares at a price of HK\$0.97 per Share are to be exercisable in whole or in part in the following manner:–*
  - (i) *During the period starting from 7th May 2005 to 6th May 2006, the option may be exercised up to 30% of such Shares.*
  - (ii) *During the period starting from 7th May 2006 to 6th May 2007, the option may (to the extent not exercised in accordance with (i) above) be exercised up to 70% of such Shares.*
  - (iii) *During the period starting from 7th May 2007 to 6th May 2013, the option may (to the extent not exercised in accordance with (i) and (ii) above) be exercised in full.*

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

## CONNECTED TRANSACTIONS

Details of related party transactions are set out in Note 2 to the accompanying accounts.

During the year ended 31st March 2005, the VSC Group has the following continuing connected transactions (“the Transactions”) in accordance with Chapter 14A of the Listing Rules. The Transactions had been approved by the shareholders of VSC on 1st November 2004 and the details of the Transactions had been disclosed in the circular of VSC dated 15th October 2004 (“the Circular”):

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

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

The Directors, including the independent non-executive Directors, are of the view that the Transactions are essential for the efficient and continuous operation of the VSC Group. Given the Transactions will occur on a regular and continuing basis, the Directors consider that it would not be practicable to announce, or if necessary, obtain prior approval from the shareholders of VSC on each occasion they arise. Accordingly, VSC convened and held a special general meeting on 1st November 2004 and the ordinary resolution to approve the Transactions and the relevant caps for a further 3-year period ending 31st March 2007 was approved by the independent shareholders of VSC. Details of the Transactions had been disclosed in this annual report as described in Rules 14A.45(1) to (5) of the Listing Rules.

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

The auditors of VSC have also confirmed that the Transactions (a) have received the approval of the Board; (b) are in accordance with the pricing policy of the VSC Group if those transactions involve the provision of goods or services by the VSC Group; (c) have been entered into in accordance with the relevant agreement(s) governing the Transactions; and (d) have not exceeded the respective caps agreed with the Stock Exchange.

## COMPETING INTERESTS

Mr. Andrew Cho Fai Yao ("Mr. Yao") is the chairman of the Board of VSC, and also the chairman of the board of directors of iSteelAsia Holdings Limited ("iSA", listed on the Growth Enterprise Market of the Stock Exchange).

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

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

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

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

## CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the independent non-executive Directors has made an initial/annual confirmation of independence pursuant to Rules 3.13 or 3.15 of the Listing Rules. VSC is of the view that all independent non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

## SUFFICIENCY OF PUBLIC FLOAT

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

## SPECIFIC PERFORMANCE OBLIGATIONS ON CONTROLLING SHAREHOLDER

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

## AUDITORS

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

PricewaterhouseCoopers were auditors of VSC for the three year ended 31st March 2005.

The accompanying accounts were audited by PricewaterhouseCoopers. A resolution for their re-appointment as VSC's auditors for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board  
**Andrew Cho Fai Yao**  
*Chairman*

Hong Kong, 15th July 2005