

# VAN SHUNG CHONG HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)  
(Stock Code: 1001)

## CONTINUING CONNECTED TRANSACTIONS

On 17 September 2004, VSC Shinsho, an indirect non-wholly owned subsidiary of the Company, entered into the Supply Agreement with Shinsho Corporation pursuant to which, Shinsho Corporation and VSC Shinsho agreed that VSC Shinsho and other subsidiaries of the Company may purchase from the Shinsho Group, from time to time, various steel products for a term commencing from 1 April 2004 up to 31 March 2007.

As Shinsho Corporation is a substantial shareholder of VSC Shinsho, an indirect non-wholly owned subsidiary of the Company, Shinsho Corporation is a connected person of the Company under the Listing Rules. Hence, the Transactions will constitute continuing connected transactions of the Company under the Listing Rules.

It is estimated by the Directors and the management of VSC Shinsho and other subsidiaries of the Company that the annual aggregate amount payable by VSC Shinsho and other subsidiaries of the Company for such purchases under the Supply Agreement will not exceed HK\$120,000,000, HK\$180,000,000 and HK\$210,000,000 for the three financial years ending 31 March 2005, 2006 and 2007 respectively. As the amounts involved under the Supply Agreement will exceed 2.5% under the Percentage Ratios, therefore it is subject to the reporting, disclosure and independent shareholders' approval requirements under Rules 14A.35 and 14A.45 to 14A.48 of the Listing Rules.

The terms of the Supply Agreement have been determined after arm's length negotiations between the parties thereto. The Directors, including the independent non-executive Directors, are of the view that the terms of the Supply Agreement are fair and reasonable so far as the Shareholders are concerned and the Supply Agreement is on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

A circular containing, among others, details of the Supply Agreement, a letter from the Independent Board Committee, a letter of advice from Goldbond Capital (Asia) Limited as the independent financial adviser and the notice of the SGM will be despatched to the Shareholders as soon as practicable in accordance with the Listing Rules.

The Independent Board Committee has been established to consider and advise the Shareholders regarding the fairness and reasonableness of the terms of the Supply Agreement and the Transactions including the Proposed Caps.

Goldbond Capital (Asia) Limited has been appointed as the independent financial adviser to the Independent Board Committee and the Shareholders to advise on the terms of the Supply Agreement and the Transactions including the Proposed Caps.

The Transactions will also be subject to the annual review requirement under Rules 14A.37 to 14A.40, and the reporting requirements under Rules 14A.45 and 14A.46 of the Listing Rules under which details of the Transaction are required to be included in the Company's next and subsequent published annual report and accounts. If during the three-year period ending 31 March 2007, the aggregate annual value of the Transactions exceeds the Proposed Caps or when the Supply Agreement is renewed or there is a material change to the terms of the Supply Agreement, the Company will re-comply with Rules 14A.35(3) and (4) of the Listing Rules.

### I. THE SUPPLY AGREEMENT

#### Date

17 September 2004

#### Parties

- VSC Shinsho, a company which is indirectly owned as to 70% by the Company and as to the remaining 30% by Shinsho Corporation; and
- Shinsho Corporation. Other than its equity interest in VSC Shinsho, Shinsho Corporation is independent of and not connected with the Company and any of the directors, chief executive, or substantial shareholders of the Company or its subsidiaries or any of their respective associates, and did not have any other business relationship with the Company as at the date of this announcement. Shinsho Corporation confirmed that Shinsho Corporation and its associates did not hold any Shares as at the date of this announcement.

#### Particulars of the Supply Agreement

Pursuant to the Supply Agreement, Shinsho Corporation and VSC Shinsho agreed that VSC Shinsho and other subsidiaries of the Company may purchase from the Shinsho Group, from time to time, various steel products for a term commencing from 1 April 2004 up to 31 March 2007. Under the terms of the Supply Agreement, Shinsho Corporation may procure members of the Shinsho Group to carry into effect the Transactions while VSC Shinsho may procure other subsidiaries of the Company to carry into effect the Transactions.

The price for each Transaction 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. To ensure that there would be reasonable profit margin for VSC Shinsho and other subsidiaries of the Company for the purchases made under the Supply Agreement, the market price will be obtained by making reference to the price quotations of similar steel products from other steel mills or to other members of the VSC Group as well as the latest market selling price for the sales of similar steel products offered by the VSC Group to its independent third party customers. A reasonable and objective market price is thus determined through such continuous referencing and comparison mechanism. Terms which may be offered by Shinsho Corporation under the Supply Agreement will be no less favourable to the VSC Group than terms that the VSC Group can obtain from Independent Third Parties.

In accordance with the terms of the Supply Agreement, the Shinsho Group agreed to supply VSC Shinsho and other subsidiaries of the Company with various steel products, including but not limited to electrolytic galvanised steel sheet in coil, cold rolled steel sheet in coil and galvanised steel sheet in coil. Following such purchases, VSC Shinsho would arrange for these steel products to be processed and then resold to customers. It is estimated by the Directors and the management of VSC Shinsho with reference to the market prices for the relevant type of steel products that the annual aggregate amount payable by VSC Shinsho and other subsidiaries of the Company for such purchases under the Supply Agreement will not exceed HK\$120,000,000, HK\$180,000,000 and HK\$210,000,000 for the three financial years ending 31 March 2005, 2006 and 2007 (i.e. the respective Proposed Caps) respectively.

#### Reasons for and benefits of the entering into of the Supply Agreement

On 24 March 2004, China Advanced Materials Processing (B.V.I.) Limited, an indirect wholly owned subsidiary of the Company completed the purchase of a 70% equity interest in VSC Shinsho from an Independent Third Party and such acquisition was not a notifiable transaction under the then Listing Rules.

VSC Shinsho, now an indirect non-wholly owned subsidiary of the Company is mainly responsible for purchasing and trading of steel products. SMC Industries Limited, a non-wholly owned subsidiary of VSC Shinsho, owns and operates a coil centre in Guangzhou — GZCC and is responsible for the actual processing of steel products. SMC Industries Limited is a cooperative joint venture established in the PRC in November 1993, and the Chinese partners to this joint venture are independent of and not connected with the Company and any of the directors, chief executive, or substantial shareholders of the Company or its subsidiaries or any of their respective associates.

As it is stated in the annual report of the Company for the financial year ended 31 March 2004, the management of the Company expected that through the strategic alliance with Shinsho Corporation, the VSC Group will be able to secure a new source of stable and high quality supply of steel for its entire coil centre operations. The Directors believe that the entering into of the Supply Agreement would provide the VSC Group with a stable supply of high quality steel products, and also enable it to minimise certain sourcing expenses.

The VSC Group is currently operating a number of factories of similar business and capacity with that of GZCC, for example, the coil centre in Dongguan. The processing capacity of the coil centre in Dongguan and GZCC is of similar level, at around 100,000 metric tonnes per annum, but the adjusted\* unaudited consolidated turnover of VSC Shinsho for the year ended 31 March 2004 is only about one-third of that of Dongguan coil centre for the same period. Although the current production output level of GZCC is relatively lower than comparable factories operated by the VSC Group, the Directors and management of VSC Shinsho believe that with the experience and proven track record of the management of the VSC Group in running Dongguan coil centre and other similar factories, GZCC would be in a position to improve the sales and marketing activities as well as operational efficiency in order to raise its production output to similar level as other factories operated by the Company. With the anticipated increase in production output of GZCC, the anticipated increase in demand for steel products would then be met, as indicated by the trend of increasing Proposed Caps in the coming three financial years.

\* based on the audited consolidated accounts of VSC Shinsho for the year ended 31 December 2003 and adjusted by (1) deducting the turnover for three months ended 31 March 2003 and (2) adding the turnover for three months ended 31 March 2004, in each case, according to the management accounts of VSC Shinsho.

The Directors believe that there may be new business opportunities to be explored with the independent Japanese customers of VSC Shinsho and its subsidiary by virtue of the relationship with Shinsho Corporation as a joint venture partner. In particular, the VSC Group may also develop more businesses with the established Japanese customers of VSC Shinsho and its subsidiary who are engaged in both automobile and home appliance sectors. It is also anticipated that strong growth in demand for processed steel products could be obtained from the automobile parts manufacturing industry in Guangzhou, in particular the few major Japanese car manufacturers, where GZCC is located. This particular strategic sector of the customer base is one area which the Company would like to expand.

The VSC Group is principally engaged in processing and distribution of steel products. Other coil centres of the VSC Group in Dongguan and Tianjin will similarly require a reliable source of high quality steel for processing and/or trading are also expected to benefit from the Supply Agreement. By entering into the Supply Agreement with the Shinsho Group, the Company can secure a new source of steel products supply which could not only support the growth of business for VSC Shinsho and its subsidiary but also help to expand the existing business volume of its processing and distribution businesses currently operated by the Company's other factories in the PRC such as Dongguan and Tianjin as well as any other new factories to be set up by the Company in the future. While the VSC Group has an established sourcing network, the Directors consider that the ability for the VSC Group to access/tap the steel resources offered by the Shinsho Group will enable the VSC Group to maintain as well as to increase its production output and sales and trading activities.

The terms of the Supply Agreement have been determined after arm's length negotiations between the parties thereto and on similar terms offered by Shinsho Corporation to Independent Third Parties. Terms which may be offered by Shinsho Corporation under the Supply Agreement will be no less favourable to the VSC Group than terms that the VSC Group can obtain from Independent Third Parties. The Directors, including the independent non-executive Directors, are of the view that the terms of the Supply Agreement are fair and reasonable so far as the Shareholders are concerned and the Supply Agreement is on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

### II. INFORMATION ON VSC SHINSHO

On 24 March 2004, China Advanced Materials Processing (B.V.I.) Limited, an indirect wholly owned subsidiary of the Company completed the purchase of a 70% equity interest in VSC Shinsho from an Independent Third Party. Prior to the acquisition of the abovementioned 70% equity interest in VSC Shinsho by China Advanced Materials Processing (B.V.I.) Limited, VSC Shinsho was known as Shell & Shinsho Company Limited ("Shell & Shinsho"). VSC Shinsho, an indirect non-wholly owned subsidiary of the Company is principally engaged in steel sheet trading, and VSC Shinsho's subsidiary in Guangzhou, is responsible for processing and trading of steel products.

According to the audited books and records of Shell & Shinsho, for the three years ended 31 December 2003, purchases made by Shell & Shinsho from Shinsho Corporation amounted to approximately HK\$51,195,000, HK\$55,060,000 and HK\$54,466,000 respectively while from 1 January 2004 to 23 March 2004 such purchases amounted to approximately HK\$21,612,000. In addition, Shell & Shinsho's purchases from Shinsho Corporation accounted for approximately 68.2%, 66.6%, 67.8% and 75.2% of the total purchases of steel products by Shell & Shinsho for the three years ended 31 December 2003 and for the period from 1 January 2004 to 23 March 2004, respectively.

Following the acquisition of VSC Shinsho on 24 March 2004, the management of the Company undertook a comprehensive operational review of the business and noted that there were in aggregate approximately 50 contracts entered into by Shell & Shinsho under its previous management with Shinsho Corporation relating to the supply of steel products by Shinsho Corporation before the Company took control and which contracts have yet to be fulfilled and honoured following the change in control of VSC Shinsho as a result of such acquisition. The total value of shipments due to the fulfillment of the previous contracts signed and concluded by Shell & Shinsho and Shinsho Corporation before 24 March 2004 for the period of 24 March 2004 to 31 March 2004 and 1 April 2004 up to 31 July 2004 amounted to approximately HK\$7,000,000 and HK\$27,000,000, respectively. Such value represents the amount of steel products shipped and delivered after 24 March 2004 and hence recorded in the accounts of VSC Shinsho as purchases, but were pursuant to contracts entered into before 24 March 2004. Around 20 of such contracts are either partially or wholly unfulfilled estimated to amount to approximately HK\$1,000,000. In line with market practice, these contracts include specific description, quantity and price of the steel products. The contract date and the actual delivery date normally would have around three months timing difference, but in practice there may be delay in shipment so the actual delivery date would be as long as six months after the contract date. Other than the

foregoing amounts, VSC Shinsho under the present management has not entered into any contracts or transactions with Shinsho Corporation since 24 March 2004, which would constitute continuing connected transactions under the Listing Rules.

Other than sourcing from Shinsho Corporation, VSC Shinsho sources from other steel products' suppliers as well. Therefore, if VSC Shinsho is able to source similar steel products as Shinsho Corporation's products and at relatively lower prices which also fit the requirements of its customers, VSC Shinsho may source from other suppliers subject to acceptance and approvals of its customers.

### III. CONTINUING CONNECTED TRANSACTIONS OF THE COMPANY

The following table sets out the Proposed Caps for each of the three financial years ending 31 March 2007 with comparisons to the turnover of the VSC Group for the financial year ended 31 March 2004 and the total assets of the VSC Group as at 31 March 2004 for indicative purposes only:

| For the financial year ending 31 March | Proposed Cap (HK\$) | As a percentage of the turnover of the VSC Group for the financial year ended 31 March 2004 (Note) | As a percentage of the total assets of the VSC Group as at 31 March 2004 (Note) |
|--|---------------------|--|---|
| 2005                                   | 120,000,000         | 3.4%   | 5.9%  |
| 2006                                   | 180,000,000         | 5.1%   | 8.9%  |
| 2007                                   | 210,000,000         | 5.9%   | 10.4%   |

Note: According to the audited financial statements of the Company for the financial year ended 31 March 2004, the turnover of the VSC Group for such financial year amounted to approximately HK\$3,549,110,000 while the total assets as at 31 March 2004 amounted to approximately HK\$2,021,274,000.

The Proposed Caps set out above are based on the foregoing historical figures and on the assumption that under the management of the VSC Group, the business of VSC Shinsho and hence GZCC could be improved to a similar scale of operation as the other similar factory in Dongguan, currently operated by the Company, and also taking into account the enhancement in steel supply expected to be made available to the VSC Group as a whole due to the addition of the Shinsho Group as a supplier to the VSC Group.

As Shinsho Corporation is a substantial shareholder of VSC Shinsho, an indirect non-wholly owned subsidiary of the Company, Shinsho Corporation is a connected person of the Company under the Listing Rules. Hence, the Transactions will constitute continuing connected transactions of the Company under the Listing Rules. As the amounts involved under the Supply Agreement will exceed 2.5% under the Percentage Ratios, therefore it is subject to the reporting, disclosure and independent shareholders' approval requirements under Rules 14A.35 and 14A.45 to 14A.48 of the Listing Rules.

The Supply Agreement has been entered into for a term of three financial years ending on 31 March 2007. The Proposed Caps as set out above were determined after taking into account the growth of business of the VSC Group including VSC Shinsho in the next three years as stated in the paragraph, headed "Reasons for and benefits of the entering into of the Supply Agreement" above and accordingly the estimated requirements and quantity of steel products required are stated therein.

The Transactions will also be subject to the annual review requirement under Rules 14A.37 to 14A.40, and the reporting requirements under Rules 14A.45 and 14A.46 of the Listing Rules under which details of the Transaction are required to be included in the Company's next and subsequent published annual report and accounts. If during the three-year period ending 31 March 2007, the aggregate annual value of the Transactions exceeds the Proposed Caps or when the Supply Agreement is renewed or there is a material change to the terms of the Supply Agreement, the Company will re-comply with Rules 14A.35(3) and (4) of the Listing Rules.

### IV. GENERAL

The VSC Group is principally engaged in trading and stockholding of construction materials as well as manufacturing and trading of industrial products.

As at the date of this announcement, Shinsho Corporation is a substantial shareholder of VSC Shinsho, an indirect non-wholly owned subsidiary of the Company and thus a connected person of the Company within the meaning of the Listing Rules. Hence, the Transactions constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules and are therefore subject to the reporting, disclosure and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. As no Shareholders nor their respective associates have interest in the Transactions, therefore no Shareholder is required to abstain from the Shareholders' approval of the Transactions.

A circular containing, among others, details of the Supply Agreement, a letter from the Independent Board Committee, a letter of advice from Goldbond Capital (Asia) Limited as the independent financial adviser and the notice of the SGM will be despatched to the Shareholders as soon as practicable in accordance with the Listing Rules.

The Independent Board Committee has been established to consider and advise the Shareholders regarding the fairness and reasonableness of the terms of the Supply Agreement and the Transactions including the Proposed Caps.

Goldbond Capital (Asia) Limited has been appointed as the independent financial adviser to the Independent Board Committee and the Shareholders to advise on the terms of the Supply Agreement and the Transactions including the Proposed Caps.

### V. DEFINITIONS

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|--------------------------------|--|
| "associate(s)"                 | has the meaning ascribed to it under the Listing Rules   |
| "Board"                        | the board of Directors   |
| "Company"                      | Van Shung Chong Holdings Limited, a company incorporated in Bermuda with limited liability and the Shares of which are listed on the main board of the Stock Exchange  |
| "connected person(s)"          | has the meaning ascribed to it under the Listing Rules   |
| "Directors(s)"                 | the director(s) of the Company   |
| "GZCC"                         | Guangzhou Coil Centre, a coil centre owned and operated by a subsidiary which is owned as to 95% by VSC Shinsho and is itself a joint venture established in the PRC   |
| "HK\$" / "Hong Kong"           | Hong Kong dollars, the lawful currency of Hong Kong / Hong Kong Special Administrative Region of the PRC   |
| "Independent Board Committee"  | an independent board committee, comprising Dr. Chow Yei Ching, Mr. Kenneth Woo Shou Ting and Mr. Harold Richard Kahler (being the independent non-executive Directors), established for the purpose of reviewing the terms of the Supply Agreement, the Transactions and the Proposed Caps |
| "Independent Third Party(ies)" | party(ies) who is/are not connected with the directors, chief executive and substantial shareholders of the Company or any of its subsidiaries or any of their respective associates   |
| "Listing Rules"                | the Rules Governing the Listing of Securities on the Stock Exchange  |
| "Percentage Ratios"            | the percentage ratios under Rule 14.07 of the Listing Rules, other than the equity capital ratio and profits ratio   |
| "PRC"                          | People's Republic of China   |
| "Proposed Caps"                | the respective proposed maximum annual aggregate value of the transactions contemplated under the Supply Agreement for each of the three financial years ending 31 March 2007  |
| "SGM"                          | a special general meeting of the Company to be held to consider the ordinary resolution to be proposed to approve the Supply Agreement and the transactions contemplated thereunder as well as the Proposed Caps   |
| "Share(s)"                     | share(s) of the HK\$0.10 each in the share capital of the Company  |
| "Shareholders(s)"              | holder(s) of the Share(s)  |
| "Shinsho Corporation"          | Shinsho Corporation, a Japanese public company the issued shares of which are listed on the Tokyo Stock Exchange and is the trading arm of Kobe Steel Group, a large steel manufacturer in Japan   |
| "Shinsho Group"                | Shinsho Corporation and its associates (as defined in the Listing Rules)   |
| "Stock Exchange"               | The Stock Exchange of Hong Kong Limited  |
| "substantial shareholder(s)"   | has the meaning ascribed to it under the Listing Rules   |
| "Supply Agreement"             | the agreement entered into by VSC Shinsho with Shinsho Corporation, details of which are disclosed under the paragraph headed "Particulars of the Supply Agreement" of this announcement   |
| "Transactions"                 | the transactions contemplated under the Supply Agreement   |
| "VSC Group"                    | the Company and its subsidiaries   |
| "VSC Shinsho"                  | VSC Shinsho Company Limited (formerly known as Shell & Shinsho Company Limited prior to the acquisition of its 70% equity interest by the Company in March 2004), a company which is indirectly owned as to 70% by the Company and as to the remaining 30% by Shinsho Corporation          |

By order of the Board  
**Andrew Cho Fai Yao**  
Chairman

17 September 2004, Hong Kong

As at the date of this announcement, the Board comprised Andrew Cho Fai Yao (Chairman), Johnson Sai Hou Ho, Fernando Sai Ming Dong (being the executive Directors), Shao You Bao (being the non-executive Director), Chow Yei Ching, Kenneth Woo Shou Ting and Harold Richard Kahler (being the independent non-executive Directors).