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VAN SHUNG CHONG HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 1001)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31ST MARCH 2005

The Board of Directors of Van Shung Chong Holdings Limited ("VSC") hereby announces the audited consolidated results of VSC and its subsidiaries (the "VSC Group") for the year ended 31st March 2005, together with comparative figures, as follows:

	Notes	2005 HK$'000	2004 HK$'000
Turnover	2	**4,138,621**	3,549,110
Cost of sales		**(3,935,673)**	(3,314,790)
Gross profit		**202,948**	234,320
Other revenue	3	**9,388**	11,028
Selling and distribution expenses		**(26,939)**	(21,352)
General and administrative expenses		**(145,259)**	(119,498)
Other income/expense, net	4	**26,183**	5,294
Operating profit	5	**66,321**	109,792
Finance costs		**(17,927)**	(13,337)
Profit before taxation		**48,394**	96,455
Taxation	6	**4,320**	(11,061)
Profit after taxation but before minority interests		**52,714**	85,394
Minority interests		**(11,637)**	(4,331)
Profit attributable to shareholders		**41,077**	81,063
Dividends		**8,114**	21,180
Earnings per share	7		
– Basic		**HK11.2 cents**	HK24.6 cents
– Diluted		**HK11.1 cents**	HK23.6 cents

Notes:

1. **Basis of Presentation and Preparation**

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention except that investment properties and long-term investments are stated at fair value.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1st January 2005. The VSC Group have not early adopted these new HKFRSs in the accounts for the year ended 31st March 2005. The VSC Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

2. **Segment Information**

The VSC Group operates predominantly in Hong Kong and Mainland China and in two business segments – (i) China Advanced Materials Processing ("CAMP") 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 ("CMG") including trading and stockholding of construction materials such as steel products, sanitary ware and kitchen cabinets and the installation work of kitchen cabinets.

a. Primary segment

Analysis of the VSC Group's results by business segment was as follows:

2005

	CAMP HK$'000	CMG HK$'000	Other operations HK$'000	Total HK$'000
Turnover				
Sales to external customers	**1,289,481**	**2,847,126**	**2,014**	**4,138,621**
Segment results	**103,923**	**(20,835)**	**1,086**	**84,174**
Other revenue	**2,654**	**255**	**6,479**	**9,388**
Other income/expense, net	**–**	**–**	**26,183**	**26,183**
Unallocated corporate expenses				**(53,424)**
Operating profit				**66,321**
Finance costs				**(17,927)**
Taxation				**4,320**
Profit after taxation but before minority interests				**52,714**

2004

	CAMP HK$'000	CMG HK$'000	Other operations HK$'000	Total HK$'000
Turnover				
Sales to external customers	674,241	2,873,024	1,845	3,549,110
Segment results	69,934	67,698	(644)	136,988
Other revenue	516	456	10,056	11,028
Other income/expense, net	–	–	5,294	5,294
Unallocated corporate expenses				(43,518)
Operating profit				109,792
Finance costs				(13,337)
Taxation				(11,061)
Profit after taxation but before minority interests				85,394

b. Secondary segment

Analysis of the VSC Group's results by geographical segment was as follows:

2005

	Hong Kong HK$'000	Mainland China HK$'000	Total HK$'000
Turnover	**1,150,722**	**2,987,899**	**4,138,621**
Segment results	**(55,172)**	**139,346**	**84,174**
Other revenue	**4,451**	**4,937**	**9,388**
Other income/expense, net	**26,128**	**55**	**26,183**
Unallocated corporate expenses			**(53,424)**
Operating profit			**66,321**

2. **Segment Information** *(Cont'd)*

b. Secondary segment (Cont'd)

2004

	Hong Kong HK$'000	Mainland China HK$'000	Total HK$'000
Turnover	1,171,303	2,377,807	3,549,110
Segment results	43,641	93,347	136,988
Other revenue	5,724	5,304	11,028
Other income/expense, net	1,500	3,794	5,294
Unallocated corporate expenses			(43,518)
Operating profit			109,792

3. **Other Revenue**

	2005 HK$'000	2004 HK$'000
Interest income	**5,059**	6,310
Dividend income from an unlisted long-term investment	**2,296**	374
Guaranteed return from a joint venture	**2,033**	4,344
	9,388	11,028

4. **Other Income/Expense, Net**

	2005 HK$'000	2004 HK$'000
Surplus on revaluation of investment properties	**25,654**	2,818
Gain on disposal of investment properties	**55**	2,476
Gain on disposal of a land and building	**10,474**	–
Impairment loss of a long-term investment	**(10,000)**	–
	26,183	5,294

5. **Operating Profit**

Operating profit is determined after charging or (crediting) the following items:

	2005 HK$'000	2004 HK$'000
After charging –		
Staff costs (including directors' emoluments)	**80,346**	68,681
Depreciation of fixed assets	**21,844**	16,791
Amortisation of goodwill (including general and administrative expenses)	**3,969**	2,359
Net loss on disposal of fixed assets	**–**	5
After crediting –		
Net gain on disposal of other fixed assets (excluding land and buildings)	**(107)**	–

6. **Taxation**

Taxation consisted of:

	2005 HK$'000	2004 HK$'000
VSC and subsidiaries –		
Current taxation		
Hong Kong profits tax		
– Current year	**2,492**	5,165
– (Over)/Under-provision in prior years	**(595)**	25
Mainland China enterprise income tax	**6,868**	6,464
Deferred taxation relating to the origination and reversal of temporary differences		
– Current year	**(13,262)**	(593)
– Under-provision in prior years	**177**	–
	(4,320)	11,061

7. **Earnings Per Share**

The calculation of basic earnings per share for the year ended 31st March 2005 is based on the consolidated profit attributable to shareholders of approximately HK$41,077,000 (2004: HK$81,063,000) and the weighted average number of approximately 368,190,000 ordinary shares (2004: 329,088,000 ordinary shares) in issue during the year.

The calculation of diluted earnings per share for the year ended 31st March 2005 is based on the consolidated profit attributable to shareholders of approximately HK$41,077,000 (2004: HK$81,063,000) and the diluted weighted average number of approximately 370,387,000 ordinary shares (2004: 344,131,000 ordinary shares) in issue after adjusting for the potential dilutive effect in respect of outstanding share options.

8. **Related Party Transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

(a) Details of significant transactions with related parties are:

Name of related party/Nature of transaction	2005 HK$'000	2004 HK$'000
Metal Logistics Company Limited *(i)*		
– Sales made by the VSC Group	**399,246**	155,716
– Administrative service fees earned by the VSC Group	**180**	180
– Interest earned by the VSC Group	**3,380**	5,672
– Commission for procurement services paid/payable by the VSC Group	**2,221**	1,894
iSteelAsia (Hong Kong) Limited *(i)*		
– Rental income earned by the VSC Group	**162**	198
– Administrative service fees earned by the VSC Group	**180**	180
Shinsho Corporation *(ii)*		
– Purchases made by the VSC Group	**104,538**	28,596

Notes:

(i) Metal Logistics Company Limited and iSteelAsia (Hong Kong) Limited are wholly owned by iSteelAsia Holdings Limited, a company in which the VSC Group had a 18.9% equity interest as at 31st March 2005 (2004: 18.9%).

(ii) Shinsho Corporation is a minority shareholder of VSC Shinsho Company Limited, a 70% owned subsidiary of the VSC Group.

8. **Related Party Transactions** *(Cont'd)*

(b) The amount due from a related company arising from the transactions described in Note (a) was included in accounts and bills receivable. Details of such balances are as follows:

Name of related party	2005 *HK$'000*	2004 *HK$'000*	Maximum balance outstanding during the year *HK$'000*
Metal Logistics Company Limited *(i)*	**118,843**	205,611	238,225

Note:

(i) The balances, arising mainly from purchases of steel, are unsecured, repayable according to the VSC Group's normal credit term for trading transactions, and bear interest at commercial lending rates for overdue balances.

(c) The amount due to a related company arising from the transactions described in Note (a) was included in accounts and bills payable. Details of such balances are as follows:

Name of related party	2005 *HK$'000*	2004 *HK$'000*
Shinsho Corporation *(i)*	**51,762**	30,902

Note:

(i) The balances, arising mainly from purchases of steel, are unsecured, repayable according to normal credit term and bore interest at commercial lending rates.

9. **Subsequent event**

Subsequent to year end, on 19th May 2005, iSteelAsia Holdings Limited, the VSC Group's long-term investment, has proposed to offer to its shareholders to subscribe for new shares of HK$0.01 each at a subscription price of HK$0.1566 per share. Van Shung Chong (B.V.I.) Limited, a wholly-owned subsidiary, was interested in approximately 18.9% of iSteelAsia Holdings Limited and has undertaken to apply in full for its assured allotment under the open offer and has agreed to underwrite the remainder of the shares offered, involving an aggregate sum of approximately HK$2,500,000. The process of the offer has not commenced as at the date of approval of these accounts.

RESULTS

Turnover increased by 17% over last year. The increase in turnover was mainly derived from the CAMP operations, which recorded an encouraging growth of 91%, while the turnover of the CMG operations remained at similar level as compared to last year. Overall gross margin, however, decreased by 26%. The Hong Kong steel rebars stockholding business of CMG was significantly affected by some long-term steel sales contracts committed in previous years at a price substantially lower than prevailing market price, resulting in an adverse hit to the profitability.

Selling and distribution expenses increased by 26% or approximately HK$6 million. The increase was mainly attributable to the increase in transportation expenses as a result of increase in sales volume. General and administrative expenses also increased by 22%. The newly acquired Guangzhou Coil Centre in March 2004 accounted for approximately HK$9 million increase in the expenses. Other major reasons for the increase included the increased staff costs due to the continuous expansion in businesses and enhanced incentive schemes for sales motivation, as well as the operating costs for the expanding headquarters in Shanghai, PRC. Profit attributable to shareholders decreased 49% to HK$41 million.

Basic earnings per share decreased by 54% to HK11.2 cents due to decrease in profit attributable to shareholders. A final cash dividend of HK2.2 cents per share was recommended, representing a cash dividend payout of 20% (2004 — 26%). It is the VSC Group's policy to try to pay dividends to reward its shareholders. With its stated strategy for further expansion, especially in CAMP, the management will balance the goal to achieve an attractive yield return for its shareholders while through reinvestments of capital to maximise the VSC Group's shareholders' value in the medium to longer term.

FINANCIAL ANALYSIS

As compared to 31st March 2004, current ratio improved to 1.47 while quick ratio have slightly decreased to 0.82. Both were still kept at a healthy level. Gearing ratio (interest-bearing borrowings less cash and bank deposits divided by shareholders' equity) increased from 1.12 to 1.28 which is mainly attributable to the growth of business and the upwardly driven steel price. The bulk of the increase in the VSC Group's liabilities was on the short-term bank trade financing, which was well matched by the increase in inventories of the increased business activities. The VSC Group's trade financing remained primarily supported by its HK$2.2 billion banking facilities. As in prior years, these lines were secured by the VSC Group's inventories held under short term trust receipts bank loan arrangement and corporate guarantees by VSC. Interest costs of the import bank loans are levied on US/HK dollar LIBOR/SIBOR/HIBOR basis with very competitive margin.

Currently, the ongoing operating expenses of the VSC Group's business in Mainland China were primarily financed by cash generated from the domestic businesses and bank loans in Renminbi ("RMB"). Interest costs of RMB banking facilities were based on loan rates set by The People's Bank of China plus competitive margin. The VSC Group will continue to solicit additional RMB financing from both foreign and domestic banks to support its business and operations in Mainland China.

CHARGES ON ASSETS

As at 31st March 2005, the VSC Group had certain charges on assets which included (i) bank deposits of approximately HK$9 million pledged for RMB bank facilities; (ii) inventories of approximately HK$34 million pledged for a RMB bank loan; (iii) land, building and equipments of approximately HK$9 million pledged for a RMB bank loan; and (iv) inventories held under short-term trust receipts bank loan arrangements in Hong Kong.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The VSC Group's businesses were primarily transacted in Hong Kong dollar, US dollar, RMB and Euro dollar. As exchange rate between HK dollars and the US dollars is fixed, together with the minimal fluctuation in exchange rate between HK dollars and RMB, the VSC Group believes its exposure to exchange rate risk is not material. The VSC Group will continue to match RMB payments with RMB receipts to minimise exchange exposure. Transaction values involving Euro dollar were relatively insignificant.

As at 31st March 2005, about 82.8% of the VSC Group's interest-bearing borrowings were denominated in HK dollar, 11.4% in RMB, 5.7% in US dollar, and 0.1% in other currencies. Forward foreign exchange contracts were entered into when suitable opportunities arise and when considered appropriate, to hedge against major non-HK dollar currency exposures. As at 31st March 2005, the VSC Group had total outstanding currency swaps, to hedge principal repayment of future US dollars debts under letter of credit and Euro trust receipt loans, in the amount of approximately HK$535 million.

All of the VSC Group's borrowings were subject to floating rates basis in view of the comparatively low interest rate environment. The use of financial derivative instruments was strictly controlled and solely for management of the interest rate and foreign currency exchange rate exposures in connection with the borrowings. It was the VSC Group's policy not to enter into derivative transactions for speculative purposes.

CONTINGENT LIABILITIES

As at 31st March 2005, the VSC Group had contingent liabilities in the form of guarantees of approximately HK$6 million.

MANAGEMENT DISCUSSION AND ANALYSIS

The VSC Group saw strong performance mixed with challenges in 2004/05 for both its CAMP and CMG operations. 2004/05 turnover grew 17% to a record high of HK$4,139 million, while profit attributable to shareholders fell by 49% to HK$41 million. Although overall results were lower than last year, the Group showed its resilience under an extremely difficult operation environment. The Group was able to weather adverse performance of specific business units by leveraging on its China focused steel processing and distribution businesses. The Group will further execute its successful corporate strategies, and ensure it can handle volatile market conditions.

(A) CHINA ADVANCED MATERIALS PROCESSING ("CAMP")

The VSC Group's CAMP operations comprise of three business units, 1) coil centre operations in Dongguan, Tianjin, Guangzhou and Nansha, which provide rolled steel processing services to OEM manufacturers of white goods, electrical appliances, computers and automobile parts; 2) manufacturing of customised enclosure systems in Shenzhen, which focuses on a variety of precision metal processing and assembly services, mainly for the telecommunications industry; 3) distribution of engineering plastic resins to industrial manufacturers of household appliances, audio/video equipments, telecommunications applications and computers located in China. For 2004/05, CAMP's turnover and segment results increased substantially by 91% to HK$1,289 million, and 49% to HK$104 million, respectively. The coil centres contributed impressive sales results to CAMP's overall turnover growth. VSC Group's overall segment results were derived entirely from positive contribution from CAMP (as compared to 51% last year) due to CMG's exceptional losses in its segment results.

1. *Coil Centre Operations*

The Group's coil centre operations consist of three main subsidiary factories in Dongguan, Tianjin and Guangzhou and 14% investment in a joint venture company in Nansha. The coil centres, which act as an essential intermediary in the steel consumption value chain between upstream suppliers (i.e. steel mills) and downstream customers (i.e. finished products/OEM manufacturers), enjoyed impressive growth in sales and profitability for the year under review. The centers were able to deliver value propositions to customers including less inventory through just-in-time (JIT) delivery, with short order lead time, reliable supply chain management, reduction in scrap and materials handling costs, savings in investment of machinery and factory space, ensured quality of steel, and flexible supply of product range.

The **Dongguan coil centre (DGCC)**, running in its 10th year, remains the Group's leading coil centre. Turnover soared about 42% to a record high of approximately HK$500 million, and sales volume increased by 17% to over 76,000 metric tonnes. Located in Humen, Dongguan, DGCC is in strategic proximity to many Hong Kong and Taiwan based OEM manufacturers of electrical appliances (DVD, LCD panel) and computers (notebook, printer) in Dongguan and nearby to the the Pearl River Delta. DGCC focuses on serving a group of large volume users by capitalizing on excellence in operations, customer service and latest machinery technology. During the year, the price of high-end rolled flat steel products remained, with minor fluctuations, at a historically high level, due to rising raw material and transportation costs, and a global demand and supply inequality. The persistently high steel price caused concern to industrial customers who now find the cost of raw materials comprising a large proportion of their overall steel costs. Under such volatile market conditions, DGCC has excelled in managing price elasticity of high-volume customers by promoting alternatives of different grades of steel from VSC Group's worldwide suppliers. As a result, the gross margin was maintained and slightly reduced to 14% from 18% last year, with segment results reaching another record high of approximately HK$58 million, a 12% increase from HK$52 million last year. The management considers DGCC a mature operation; able to support high volume users at an acceptable margin to maximize profit.

The **Tianjin coil centre (TJCC)** completed its first full year of operations in 2004/05 and showed tremendous progress within a relatively short start-up period. Turnover for 2004/05 amounted to approximately HK$156 million, up 311% from that of the 9-month period of 2003/04 (commenced operations since July 2003) of approximately HK$38 million. Profitability was attained with segment results of approximately HK$9 million, as compared to the operating loss of approximately HK$0.7 million last year. Based on the DGCC operation experience, the VSC Group could rapidly apply the operational system, and set up TJCC, secure re-export customers, and domestic markets in Bohai and northern China. TJCC's current key accounts include LG Electronics, Daewoo (microwave oven and air-conditioner), and Panasonic and local customers in automobile parts, welding, and metal precision services. To further maximize TJCC's potential, the VSC Group entered into an agreement with MISI, a major Japanese steel trading company, for strategic investment in TJCC operations. Such a strategic alliance enables TJCC to not only obtain secured steel supply from MISI, but also leverage on MISI's strong network with major Japanese customers. TJCC is now preparing further investment in machinery and land, to enlarge production capacity to meet anticipated demand surge.

The 70% owned **Guangzhou coil centre (GZCC)**, acquired in late March 2004, gave an impressive first full year contribution in 2004/05. Situated in Huangpu, Guangzhou, GZCC is the third coil centre run and managed by the VSC Group. Turnover for the new fiscal year ended 31st March 2005, amounted to approximately HK$249 million, representing a 128% jump over the audited turnover of approximately HK$109 million for the previous fiscal year ended 31st December 2003. Segment results for 2004/05 reached a historical high of about HK$18 million, compared to GZCC's results prior to the acquisition.

VSC Group's partner, Shinsho Corporation, the core trading arm of Kobe Steel Group, provides strong support in ensuring a stable and high quality supply of steel as well as developing a strong customer portfolio of established Japanese clientele in the automobile and home appliance sectors. GZCC focuses on serving the re-export OEM home appliance manufacturers in Guangzhou and domestic customers in the Pearl River Delta. VSC Group plans to further by enhance operations and machinery at GZCC, and with Shinsho Corporation, jointly study the viability of setting up another processing line for non-ferrous metals like aluminum and/or stainless steel. Similar to its self-run coil centres, the VSC Group's 14% investment in the **Baosteel Jingchang joint venture** in Nansha, also delivered strong performance. 2004/05 turnover jumped by 33% to over RMB656 million. Annual sales volume reached a new high of over 118,000 metric tonnes. Net profit amounted to approximately RMB10.6 million. Dividend received during the year was about RMB1.3 million, together with dividend declared, based on distributable profit of about RMB1.1 million, generating a total dividend income of about RMB2.4 million to the VSC Group. The Nansha JV has a reputable industry position by offering highly competitive prices and quality service. Continuous operational improvements were driven by the widespread use of balance scorecard approach to set specific measurable targets in inventory turnover days, customer satisfaction index and passing of ISO9001:2000 audit. The completion of Phase 2 expansion has equipped the JV with a larger factory premise and additional cutting and slitting machines, while phase 3 expansion is underway, with the JV in final talks with the local Planning Bureau for land purchase.

2. *Enclosure Systems Manufacturing*

The VSC Group strategically invested in the set up of the **VJY enclosure systems manufacturing (VJY)** in Shenzhen three years ago, to further become a comprehensive steel processing services solution provider, and adding to its list of offerings punching, bending, stamping, coating, assembly, technical design and quality control. VJY's focus is to provide customised enclosure systems for the high growth telecommunications industry in southern China, which is dominated by a few leading domestic telecommunication equipment providers/manufacturers such as Huawei and Zhongxing. In its initial start up period, VJY had to invest in substantial resources to meet the stringent requirements, before qualifying as the approved vendor for these customers who prefer to source from a few reliable vendors. VJY needs to continually improve its production costs and efficiency to remain competitive in winning bidding orders and keep up with changes in the telecommunications industry. To date, VJY has successfully developed its position in the supply chain of enclosure systems and secured its market share with top customers Huawei and Zhongxing. Turnover for 2004/05 continued its increase by 25% to about HK$136 million, as compared to last year's HK$109 million; more than three times over the HK$40 million sales recorded two years ago. However, segment results fell by 44% from approximately HK$9 million to HK$5 million due to high raw material costs and special provision for aged finished goods and work-in-progress. In the coming year, VJY will apply key account management in servicing core customers, exceed RMB200 million sales, and improve its technical manufacturing capability and sales forecast to lower inventory costs. Coordination among sales and production teams will be strengthened to secure expected orders from Huawei in respect of the wireless segment, while outsourcing of certain production processes to selective reliable partners will continue to optimise production management and expand capacity. The VSC Group's strong steel supply chain management, will assist VJY in sourcing from local steel mills to mitigate the impact of high raw material costs.

3. *Plastics Distribution*

For the year under review, the **plastics division** recorded a 44% increase in turnover to approximately HK$248 million and a 54% growth in segment results to approximately HK$15 million. The soaring crude oil price drove up the price of plastics, resulting in 44% sales growth in sales dollar value, while actual sales volume growth was at 17%. The division continues to promote the engineering plastic resins of a wide range of suppliers including Samsung Total, Samsung Cheil, GE Plastics, Mitsubishi and UMG. The team offers technical assistance to customers' new products development and coordination with suppliers. Local sales teams in Shenzhen and Guangzhou have penetrated into the local market around the Pearl River Delta, targeting the huge demand for high quality imported resins, particularly in the home appliance, health care and medical products markets.

The new wholly owned trading company in Shenzhen also facilitates the development of local sales with the planned set up of a bonded warehouse in China to expedite delivery. However, performance of the machinery division has not improved due to strong competition and poor sentiment for its costly high-end Japanese injection moulding machinery. As a result, the VSC Group plans to terminate the relatively small scale machinery division at fiscal year-end, and reallocate manpower resources.

(B) *CONSTRUCTION MATERIALS GROUP ("CMG")*

The VSC Group's CMG business primarily distributes steel and building products to large reputable developers and contractors for construction work in Hong Kong and Mainland China. As mentioned earlier, CMG operations were seriously hampered by the exceptionally poor results of its Hong Kong steel stockholding department and the selective macro-entrenchment measures in China to curb some overheated industries, in particular the steel and real estate sectors. As a result, CMG's turnover slightly dropped by 1% to approximately HK$2,847 million, accounting for approximately 69% (last year – 81%) of the VSC Group's total turnover. CMG's segment results for the first time suffered a HK$21 million loss as compared to the profit of approximately HK$68 million last year. However, the VSC Group remains optimistic about CMG's long-term development, and will pursue an overall strategy to build a steel distribution network to provide high value-added solutions to target customers across China. Leveraging on the expertise of steel specialists who possess in-depth knowledge of the domestic steel market, CMG has successfully expanded its coverage from Hong Kong to major cities in Mainland China, including Shenzhen, Guangzhou, Shanghai, Beijing and Tianjin, to capture booming potential for construction materials.

1. *Steel Distribution*

The VSC Group's CMG operations in steel distribution comprise stockholding business of rebars, structural steel and engineering products in Hong Kong, steel distribution in Mainland China together with its investment in the iSteelAsia Group, and distribution of mainly domestic steel products in eastern China by its 66.7% owned joint venture, Shanghai Bao Shun Chang ("BSC"). Sales revenue from distribution of steel in China was stable from last year, contributing a majority of 61% of the total steel distribution turnover in 2004/05.

The steel stockholding business, notably its rebars business, in Hong Kong suffered from an unprecedented adverse operating environment, with its performance hitting an all-time low in the VSC Group's 40-year history. Turnover of the Hong Kong steel stockholding department (which consists of rebars, structural steel, soil nails and couplers) decreased by 9% as compared to last year but ended with a gross loss of approximately HK$49 million. The major rebars stockholding business, which traditionally commits to long-term (1 to 3 years) fixed price sales contracts with major developers and contractors for specific projects and construction sites, was hit with sales declining by 6% to about HK$894 million, and a gross loss of about HK$72 million, shrinking from the gross profit of around HK$52 million last year. Other businesses: structural steel and engineering products were not as adversely affected as they do not depend on long-term contracts as much.

Average selling prices were dramatically pulled down during this period due to long-term fixed price sales contracts, entered into during 2000, which had yet to run their course. Construction activities in Hong Kong also remained stagnant without much apparent improvement from the recently recovered property market. Total tonnage of all kinds of steel delivered by the entire department in 2004/05 fell to over 329,000 metric tonnes, as compared to over 444,000 metric tonnes last year. Sourcing of steel rebars was worsened by the volatility of steel prices, not seen by the industry in the last decade, due to the war in the Middle East. Consequently, the VSC Group suffered tremendous pressure given its fixed low sales price commitment in Hong Kong against a backdrop of soaring worldwide prices. To maintain its long-term relationships with customers, and to limit the potential exposure in the mismatch between the sales price and purchase cost, the department concluded several unprofitable purchases in covering its open position in the outstanding sales contracts to ensure uninterrupted delivery of steel rebars to customers. This, as the department finally closed the books at year end, resulted in gross loss.

Such unsatisfactory results showed the historically unchallenged vulnerability of the rebars stockholding business model in Hong Kong. As endorsed by customers, the department already adjusted its operating strategies to have both the suppliers and customers share in the pricing risk, and decided not to enter into long-term fixed price sales contracts exceeding two years, with price adjustment for delivery of over 2 years. A premium will also be charged for special size delivery. The department is committed to ensuring customer satisfaction through healthy competition, reduced operation cost by supply chain management and improved operation efficiency. Most of the outstanding fixed low price sales contracts have also been completed or are expiring this financial year. The management is confident that, barring unforeseen circumstances, the VSC Group will leverage on its financial strength and solid customer and supplier base, to restore the Hong Kong steel distribution business back to health.

Currently, the department's contracts-on-hand total about HK$742 million extending to 2006. Major projects including Shatin Heights Tunnel and Approaches, Route 8, Eagle's Nest Tunnel, Fanling Area 36 Phase 1&2, Upper Ngau Tau Kok Estate Phase 2&3, Cyberport Residential Development Phase RIII&RIVA, Commercial/Residential Development at Yeung Uk Road, ICAC Headquarters at North Point, Wynn Resorts Macau and Park Hyatt Hotel Macau. Macau's recent economic prosperity is likely to generate steel demand for the department over the next few years, mitigating to an extent, the shrinkage in the Hong Kong market.

Inventory turn was closely monitored and minimum profit margins were strictly adhered to as part of the measures to combat the volatile construction steel market. Under these conditions, the development of imported structural steel, mainly H-beams, into Shanghai, inevitably slowed. Turnover arising from such distribution in 2004/05 was about HK$208 million as compared to last year's sales of over HK$330 million. Coupled with other steel products distribution to distributors and end users in southern China, CMG achieved an aggregate turnover of about HK$392 million for steel distribution in Mainland China, a 40% decline from HK$654 million last year. The VSC Group, under the purchase arrangement with the iSteelAsia Group, made steel products sales of approximately HK$399 million. To further realign its financial resources and exercise more control over its supply chain, the VSC Group partially called upon its put option in its investment in the Beijing Shougang Group's manufacturing of colour-coated steel plates or PPGI, and reduced its shareholding from 10% to 5% to repatriate US$2 million. To mitigate vulnerability of the fluctuating steel price, CMG is exploring other value propositions that would demand less capital and yield higher return. During the year, the VSC Group formed a strategic alliance with a newly set up venture, MetalChina, to develop the provision of a virtual chain market linking procurement services to overseas buyers to source China-made metal products for export. Such specialised services not only help develop the VSC Group's domestic sourcing capability but also lower its capital requirements and risks associated with inventory. It further renders cross-selling opportunity of processing activities for the CAMP operations. Under a subscription agreement, the VSC Group could acquire a majority stake in the venture should the business model prove to work well. The 66.7% joint venture company with the Shanghai Baosteel Group, **BSC**, continued to deliver strong performance and yield to the VSC Group. For 2004/05, turnover further increased by 10% to approximately HK$848 million, and net profit contribution before minority interests jumped 88% to about HK$24 million. To further enrich its value propositions to customers, BSC has decided to partner with a major domestic customer, Jiangsu Baixue Electrical Appliances to set up a stamping steel service centre in Changshu, which is close to industrial areas in Suzhou and Wuxi. Total investment is estimated to be about US$1.2 million, and the VSC Group will hold majority shareholding. To begin in 2006, the JV will open up a new geographic reach and capture new demand.

2. *Building Products*

Building products department regained its momentum of growth and further improved its performance with turnover increasing by 13% to about HK$157 million and segment result increased 80% to about HK$9 million in the year, as compared to HK$5 million in last year. The biggest contributor is now the project sales division, which distributes mainly sanitary wares of TOTO, Laufen and Hansgrohe, and Rover tiles. Despite the stagnant residential building contracts during the year, the division successfully extended the TOTO sensor products from hotel and commercial applications to major luxury residential developments. The division continued to enjoy modest sales growth in commercial office, shopping arcade, hotel and service apartments and casino and resort sectors in Macau. The division currently has contracts-on-hand worth around HK$11 million. Major outstanding projects include the supply of bathroom sanitary wares and tiles for Three Pacific Place Pedestrian Subway, Ting Kau Hotel, various hotels in Macau and Area 31 Tin Ping Shan. To raise the sales volume and profit margin, new products with own brand names will be developed. As stated in last year's annual report, the kitchen cabinets division has been restructured to abandon large long-term, high risks and low return projects. Thus, turnover from the kitchen installation business has continued to decline as the division is now focusing on small but high end individual projects, which yield a much higher profit margin but less demand on human resources. **Leisure Plus**, the retail outlet and showroom, with an area of over 7,000 square feet in Wanchai has successfully built up a superior high-end image for quality sanitary products and kitchen cabinets. Its share of the retail market is enhanced through establishment of a wholesale network. A new business model, Vendor Managed Inventory ("VMI") has been used to operate this network to better coordinate the pricing, inventory, display quality and services level among all dealers. Turnover increased over 91%. The wholly owned trading company, **Leisure Plus Shanghai**, recorded good progress in its wholesale and project sales of TOTO products in Shanghai. Leisure Plus Shanghai achieved a turnover of approximately HK$59 million, a 91% growth over last year. It also turned around its loss position from last year, with segment results of approximately HK$1 million. The VSC Group has also obtained distribution rights of TOTO in Guangzhou and Shenzhen areas. A new wholly owned trading company is being set up to handle the retail and project sales in these areas.

(C) *OTHER INVESTMENT*

The VSC Group maintained as a long-term investment of 18.9% interest in **iSteelAsia Holdings Limited ("iSteelAsia")**, a company listed in the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("Stock Exchange") since April 2000. In 2004/05, **iSteelAsia and its subsidiaries (together the "iSteelAsia Group")** was adversely affected by the central government's policy to limit excessive investments in specific overheated industries. Together with a volatile steel price and conservative provisions for diminution in value relating to inventories, receivables, deferred tax assets and deposits in dispute, the iSteelAsia Group's turnover in 2004/05 decreased 40% to approximately HK$860 million, and a loss attributable to shareholders of approximately HK$10 million has been recorded. However, the VSC Group remains confident the iSteelAsia Group will be restored to profitability. The VSC Group will, as previously agreed, continue to source and supply steel to the iSteelAsia Group to facilitate its expansion of steel trading operations and obtain bulk purchase benefit by aggregating demand of the two groups. iSteelAsia will receive net proceeds of approximately HK$30,200,000 from a series of capital restructuring exercises given shareholders approval. The VSC Group has also agreed to act as the underwriter for the open offer and would subscribe new iSteelAsia shares for the maximum amount of HK$2.5 million.

PROSPECTS

In the coming year, one of our major tasks is to maximise the synergetic effects brought by the VSC Group's two complementary business divisions to provide integrated service along the value chain and supply chain. Such vertical relationship has greatly strengthened our position and maintained the VSC Group's profit margin.

Strengthen Vertical Integrated Value-Added Service

We believe that product quality and service are the destinations of customers' choice. VSC is differentiated from other steel service providers in the PRC through the provision of comprehensive and integrated value-added service and scalable operation. The CAMP and CMG business divisions have perfectly linked the two poles of the supply chain with end customers and steel producers. The two strong developed networks keep VSC away from market speculation and fluctuation, enabling the VSC Group to maintain a profitable operation.

In addition to procurement side supply chain management, we will continue to extend our service by providing more comprehensive, efficient processing service, just-in-time delivery to add values to our customers and play a more important role in the value chain.

Reinforce Operation Structure

As mentioned, we have expanded the VSC Group's industrial business by adding the Guangzhou coil centre which has further extended VSC's service to well known consumer electronics and automotive brands. In 2004/05, we will focus on strengthening the established operations and maximising capacity through enterprise approach. On the other hand, we will also continue to explore other growth opportunities to enlarge market share in the burgeoning economy.

EMPLOYEE AND REMUNERATION POLICIES

In June 2005, the VSC Group employed about 1,106 staff members. Salaries and annual bonuses are determined according to positions and performance of the employees. The VSC Group provides on-the-job training and training subsidy to its employees in addition to retirement benefit schemes and medical insurance. Total staff costs including contribution to retirement benefit schemes incurred during the year under review amounted to approximately HK$80 million. During the year under review, no options were granted to its employees under the new share option scheme adopted since 12th November 2001.

DIVIDENDS

VSC has not declared any interim dividend during the year. The Directors have resolved to recommend at the forthcoming Annual General Meeting the payment of a final dividend of HK2.2 cents per share in respect of the year ended 31st March 2005 payable to shareholders whose names appear on the Register of Members of VSC at the close of business on 26th August 2005. Subject to the approval of shareholders at the forthcoming Annual General Meeting, the final dividends warrants are expected to be despatched on or before 30th September 2005.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of VSC will be closed from 24th August 2005 to 26th August 2005 (both dates inclusive) during which period no transfers of shares will be registered. In order to qualify for the final dividend, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with VSC's Registrars in Hong Kong, Computershare Hong Kong Investor Services Limited by not later than 4:00 p.m. (Hong Kong SAR time) on 23rd August 2005.

AUDIT COMMITTEE

In compliance with the requirements as set by the Stock Exchange, the VSC Group set up its Audit Committee in December 1998. The Committee now consists of five non-executive Directors with Mr. Kenneth Woo Shou Ting as Chairman and Dr. Chow Yei Ching, Dr. Shao You Bao, Mr. Kenny King Ching Tam and Mr. Harold Richard Kahler as members (of whom four, including the chairman of the Audit Committee, are independent non-executive Directors) with one of the members of the Audit Committee is an independent non-executive Director with appropriate professional accounting expertise as required under Rule 3.10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). Scope of the work of the Audit Committee is defined and approved by the Board in relation to various internal control and audit issues with a view to further improving our corporate governance. These audited consolidated accounts for the year ended 31st March 2005 of the VSC Group now reported on have been reviewed by the Audit Committee.

CODE OF BEST PRACTICE

In the opinion of VSC's Directors, VSC had complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules in force prior to 1st January 2005, throughout the accounting year under review, except that the non-executive directors of VSC are not appointed for specific terms. However, the non-executive directors are subject to retirement by rotation and re-election at the annual general meeting in accordance with VSC's Bye-laws.

PUBLICATION OF FURTHER INFORMATION

Information required by paragraphs 45(1) to 45(3) inclusive of Appendix 16 of the Listing Rules in force prior to 31st March 2004 will be published on the website of the Stock Exchange in due course.

On behalf of the Board
Andrew Cho Fai Yao
Chairman

Hong Kong, 15th July 2005

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

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