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# VAN SHUNG CHONG HOLDINGS LIMITED

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

## CONTINUING CONNECTED TRANSACTIONS

Reference was made to the announcement of the Company dated 17 September 2004 in relation to the Previous Supply Agreement. On 17 September 2004, VSC Shinsho, a then indirect 70% owned subsidiary of the Company and currently through an indirect 60% owned subsidiary of the Company owned 70%, entered into the Previous Supply Agreement with Shinsho Corporation. Shinsho Corporation is a company which holds 30% of the issued share capital of VSC Shinsho. The Company has on 1 November 2004 obtained the independent Shareholders' approval in a special general meeting in respect of the Previous Supply Agreement and the annual caps.

Since the Previous Supply Agreement will expire on 31 March 2007, VSC Shinsho has on 15 February 2007 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 2007 up to 31 March 2010.

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\$240,000,000, HK\$280,000,000 and HK\$320,000,000 for the three financial years ending 31 March 2008, 2009 and 2010 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 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 Access Capital 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.

Access Capital 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 reports and accounts. If during the three-year period ending 31 March 2010, 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.

Reference was made to the announcement of the Company dated 17 September 2004 in relation to the Previous Supply Agreement. On 17 September 2004, VSC Shinsho, a then indirect 70% owned subsidiary of the Company and currently through an indirect 60% owned subsidiary of the Company owned 70%, entered into the Previous Supply Agreement with Shinsho Corporation. Shinsho Corporation is a company which holds 30% of the issued share capital of VSC Shinsho. The Company has on 1 November 2004 obtained the independent Shareholders' approval in a special general meeting in respect of the Previous Supply Agreement and the annual caps.

Since the Previous Supply Agreement will expire on 31 March 2007, VSC Shinsho has on 15 February 2007 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 2007 up to 31 March 2010.

### I. THE SUPPLY AGREEMENT

#### Date

15 February 2007

#### Parties

- VSC Shinsho, a company which is an indirect subsidiary of the Company and Shinsho Corporation owns it by 30%; and
- Shinsho Corporation. To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, other than Shinsho Corporation's equity interest in VSC Shinsho, Shinsho Corporation and its ultimate beneficial owner(s) are third parties independent of the Company and connected persons of the Company.

#### 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 2007 up to 31 March 2010. 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 unprocessed steel products from other steel mills to other members of the VSC Group as well as the latest market selling price for the sales of similar processed and unprocessed 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, galvanised steel sheet in coil and hot rolled 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 Previous 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 31 March 2005, 2006 and ending 2007 respectively and will be capped at HK\$240,000,000, HK\$280,000,000 and HK\$320,000,000 for each of the three years ending 31 March 2008, 2009 and 2010 (i.e. the respective Proposed Caps) respectively in anticipation of the growth of the coil centre's business.

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

On 24 March 2004, China Advanced Materials Processing (B.V.I.) Limited, a then indirect wholly owned subsidiary of the Company completed the purchase of a 70% equity interest in VSC Shinsho from an Independent Third Party. On 1 November 2006, China Advanced Materials Processing (B.V.I.) Limited became an indirect 60% owned subsidiary of the Company.

VSC Shinsho, an indirect non-wholly owned subsidiary of the Company, is mainly responsible for purchasing and trading of steel products. Guangzhou Shenchang Metal Products Co., Ltd., 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. Guangzhou Shenchang Metal Products Co., Ltd. is a cooperative joint venture established in the PRC in November 1993. To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the Chinese partner to this joint venture and its ultimate beneficial owner(s) are third parties independent of the Company and connected persons of the Company.

Reference was made to the announcement of the Company dated 17 September 2004. VSC Shinsho and Shinsho Corporation had entered into the Previous Supply Agreement which will be expired on 31 March 2007. In order not to affect the continuation of the existing business of GZCC and to secure a 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.

By entering into the Supply Agreement with the Shinsho Group, the Company can secure a reliable 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, Tianjin and Kunshan 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 are of the view that the terms of the Supply Agreement are fair and reasonable so far as the Shareholders are concerned and the Transactions are on normal commercial terms, in the ordinary and usual course of business 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, a then indirect wholly owned subsidiary of the Company completed the purchase of a 70% equity interest in VSC Shinsho from an Independent Third Party. On 1 November 2006, China Advanced Materials Processing (B.V.I.) Limited became an indirect 60% owned subsidiary of the Company. VSC Shinsho, an indirect

non-wholly owned subsidiary of the Company is principally engaged in purchasing and trading of steel products, and VSC Shinsho's subsidiary in Guangzhou, is responsible for processing and trading of steel products.

### III. ANNUAL CAPS AND THE REASONS FOR THE INCREASING DEMAND

The following table sets out the total amount payable by VSC Shinsho and other subsidiaries of the Company for such purchases under the Previous Supply Agreement:

For the financial year ended 31 March	Actual purchase from Shinsho Group (HK\$)	Total purchase from Shinsho Group and other independent third parties (HK\$)	Actual purchase from Shinsho Group as a percentage of total purchase	Cap (HK\$)	Actual purchase from Shinsho Group as a percentage of Cap
2005	104,394,774	253,794,897	41%	120,000,000	87%
2006	164,280,572	309,077,614	53%	180,000,000	91%
2007 (for the nine months ended 31 December 2006)	123,909,028	208,810,858	59%	210,000,000	79%*

\* % of annualised purchase from Shinsho Group for FY2007 to Cap = (123,909,028/9 x 12)/210,000,000 x 100%

In order to specialize on products specification, and brandnames, each service centre of the VSC Group specialized in certain brands, and specification of steel and Kobe Steel materials (purchased via Shinsho Corporation) has been the main brand of GZCC.

In FY2005, first full year of operation of under the control of VSC Group, GZCC has successfully enlarged its customer base and volume. Total output increased significantly. In FY2006, this trend continued. Coupled with price hike in the first half of the year, total amount of steel purchased increased 22% from HK\$254,000,000 to HK\$309,000,000. Value of material purchased via Shinsho Corporation increased 58% from HK\$104,000,000 to HK\$164,000,000.

Steel price decreased significantly in second half of FY2006 and continued to drop at the beginning of FY2007. Notwithstanding this, as product branding strategy continued, the percentage of value of Kobe Steel materials purchased to total purchase increased 6% from 53% to 59%.

If the effect of price fluctuation is eliminated, average Cap utilization would range from 85% to 90%, leaving 10% to 15% safety margin which is necessary for supply and demand hence pricing uncertainties.

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.

The following table sets out the Proposed Caps for each of the three financial years ending 31 March 2010 with comparisons to the turnover of the VSC Group for the financial year ended 31 March 2006 and the total assets of the VSC Group as at 30 September 2006 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 2006 (Note)	As a percentage of the total assets of the VSC Group as at 30 September 2006 (Note)
2008	240,000,000	5.2%	12.6%
2009	280,000,000	6.1%	14.7%
2010	320,000,000	7.0%	16.8%

Note: According to the audited financial statements of the Company for the financial year ended 31 March 2006 and the unaudited financial statements of the Company for the six months ended 30 September 2006, the turnover of the VSC Group for the financial year ended 31 March 2006 amounted to approximately HK\$4,574,939,000 while the total assets as at 30 September 2006 amounted to approximately HK\$1,909,378,000.

The VSC Group is currently operating a number of metal service centres in the PRC, namely Dongguan, Guangzhou, Tianjin and Kunshan. All four provide similar metal services, primarily cut-to-length and slit-to-width. Ryerson Inc., one of the North America's leading distributors and processors of metals, had through its wholly owned subsidiary acquired 40% of the enlarged capital of VSC-Ryerson China Limited which operates VSC Group's metal service centre business.

Aggregate annual production capacity is approximately 350,000 tons. This included 80,000 tons capacity of the newly set-up Kunshan service centre. Dongguan service centre, the oldest and most mature one, is approaching quite high level of capacity utilization, this makes collaboration with nearby sister service centre a way to optimize capacity usage and customer strategy. GZCC was acquired by the VSC Group in March 2004, which was operating at approximately 25% of capacity only. Currently the capacity utilization rate is close to 60%. With its own organic growth and further collaboration with sister service centre, capacity utilization rate will continue growing. New products and customers introduced by Ryerson Inc. will easily consume the current underutilized capacity. Given Ryerson's participation, there are also plans to penetrate US-based customers who are planning to transplant their manufacturing operations into China. The strategically located Kunshan service centre has started trail run in January 2007, which targeted to serve customers located in Eastern China who already have cumulated a critical mass.

The Proposed Caps set out above are based on the foregoing historical figures and on the assumption that under the management of VSC Group, i.e. Southern China customer optimization strategy and continuation of new customer development, the business of VSC Shinsho and hence GZCC would be further improved. Commencement of operation of Kunshan Coil Centre, which serves customers in Eastern China, will also demand for Kobe Steel materials. And, customers introduced by Ryerson Inc. will demand for high quality, imported materials which Kobe Steel materials are one of the solutions. The Directors are of the view that the Proposed Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Secured and reliable supply of quality steel is crucial to the above-mentioned development strategies. Shinsho Corporation, through partnership with the Company in the past three years, provided strong support in ensuring a stable supply of high quality Japanese steel to GZCC. This source of supply will become crucial to Kunshan service centre when it begins mass production.

### IV. CONTINUING CONNECTED TRANSACTIONS OF THE COMPANY

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 VSC Group did not have any previous transactions with Shinsho Corporation in respect of the continuing connected transactions which required aggregation under Rule 14A.25 of the Listing Rules.

The Supply Agreement has been entered into for a term of three financial years ending on 31 March 2010. 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 "Annual caps and the reasons for the increasing demand" above.

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 reports and accounts. If during the three-year period ending 31 March 2010, 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.

### V. GENERAL

The VSC Group is principally engaged in (i) China Advanced Materials Processing including manufacturing of industrial products such as rolled flat steel products and enclosure systems and trading of engineering plastic resins, and (ii) Construction Materials Group including trading and stockholding of construction materials such as steel products, sanitary wares and kitchen cabinets.

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 Access Capital 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.

Access Capital 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.

### VI. DEFINITIONS

"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
"Director(s)"	the director(s) of the Company
"GZCC"	Guangzhou Coil Centre, a coil centre owned and operated by a subsidiary, Guangzhou Shenchang Metal Products Co., Ltd., which is owned as to 95% by VSC Shinsho and is itself a joint venture established in the PRC
"FY2005"	for the financial year ended 31 March 2005
"FY2006"	for the financial year ended 31 March 2006
"FY2007"	for the financial year ending 31 March 2007
"HK\$" / "Hong Kong"	Hong Kong dollars, the lawful currency of Hong Kong
"Independent Board Committee"	Hong Kong Special Administrative Region of the PRC an independent board committee, comprising Dr. Chow Yei Ching, Mr. Harold Richard Kahler, Mr. Kenny King Ching Tam and Mr. Xu Lin Bao (being all 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 Parties(ies)"	party(ies) who and whose ultimate beneficial owner(s) is/are independent of and not connected with the Company, the directors, chief executive and substantial shareholders of the Company or any of its subsidiaries or any of their respective associates
"Kobe Steel"	Kobe Steel Group, a large steel manufacturer in Japan
"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
"Previous Supply Agreement"	the steel supply agreement dated 17th September 2004 entered into between Shinsho Corporation and VSC Shinsho, pursuant to which, VSC Shinsho and other subsidiaries of VSC 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 and the related transactions had been approved by the Shareholders on 1 November 2004
"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 2010
"SGM"	a special general meeting of the Company to be held to consider the ordinary resolution to be proposed to approve, the Supply Agreement, the Transactions and the Proposed Caps
"Share(s)" / "Shareholder(s)"	share(s) of the HK\$0.10 each in the share capital of the Company 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 a group company and a trading arm of Kobe Steel
"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, a company which is an indirect subsidiary of the Company and Shinsho Corporation owns it by 30%

By order of the Board  
Andrew Cho Fai Yao  
Chairman

15 February 2007, Hong Kong

As at the date of this announcement, the Board comprised Andrew Cho Fai Yao (Chairman), Fernando Sai Ming Dong (being the executive Directors), Chow Yei Ching, Harold Richard Kahler, Kenny King Ching Tam and Xu Lin Bao (being the independent non-executive Directors).