VAN SHUNG CHONG HOLDINGS LIMITED | 萬順昌集團有限公司

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VSC

Interim Report 2001/02 中期報告

VSC GROUP

UNAUDITED INTERIM RESULTS

The Board of Directors of Van Shung Chong Holdings Limited ("VSC") hereby announces the unaudited condensed financial statements of VSC and its subsidiaries (the "VSC Group") as at and for the six months ended 30th September, 2001, together with comparative figures, as follows:

CONSOLIDATED INCOME STATEMENT

For the six months ended 30th September, 2001

	Note	Six months ended 30th September, 2001 HK$'000 (unaudited)	2000 HK$'000 (unaudited) (Notes 1 and 15)
Turnover	2	**1,015,069**	1,243,537
Representing —			
Continuing operations		**1,003,521**	1,221,654
Discontinuing operations		**11,548**	21,883
Cost of sales		**(932,292)**	(1,097,404)
Gross profit	2	**82,777**	146,133
Selling and distribution expenses		**(8,701)**	(20,844)
Operating expenses		**(51,106)**	(75,821)
Profit from operations	3	**22,970**	49,468
Representing —			
Continuing operations		**24,992**	53,943
Discontinuing operations		**(2,022)**	(4,475)
(Loss) Gain on investments	4	**(517)**	326,197
Loss on investment properties		**—**	(17,574)
Interest income		**1,444**	1,083
Interest expense		**(4,824)**	(6,203)
Share of (loss) profit of associates		**(89)**	11
Profit before taxation		**18,984**	352,982
Taxation	5	**(3,998)**	(12,150)
Profit after taxation but before minority interests		**14,986**	340,832
Minority interests		**(458)**	(129)
Profit attributable to shareholders		**14,528**	340,703
Interim dividends			
— cash dividend of 1.8 cents (2000: 3.0 cents) per ordinary share		**6,390**	10,659
— distribution in specie of shares in iSteelAsia.com Limited		**—**	308,016
		6,390	318,675
Earnings per share	6		
— Basic		**4.1 cents**	95.8 cents
— Diluted		**4.1 cents**	93.9 cents

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

For the six months ended 30th September, 2001

	Six months ended 30th September, 2001 HK$'000 (unaudited)	2000 HK$'000 (unaudited)
Net (loss) gain not recognised in the consolidated income statement		
— Translation adjustments	**(378)**	1,221
— Revaluation (deficit) surplus on long-term investments	**(16,680)**	134,854
Profit attributable to shareholders	**14,528**	340,703
Total recognised (losses) gains	**(2,530)**	476,778

CONSOLIDATED BALANCE SHEET

As at 30th September, 2001

	Note	**As at 30th September, 2001 HK$'000 (unaudited)**	As at 31st March, 2001 HK$'000 (audited) (Notes 1 and 15)
Non-current assets			
Property, plant and equipment	7	**114,864**	86,296
Investment properties		**31,340**	31,340
Investment in associates		**—**	90
Long-term investments	8	**70,234**	87,431
Goodwill		**9,024**	—
Total non-current assets		**225,462**	205,157
Current assets			
Inventories		**199,581**	238,855
Gross amount due from customers for installation contract work		**2,200**	916
Prepayments, deposits and other receivables		**46,289**	27,534
Advances to suppliers		**—**	14,416
Accounts receivable	9	**362,608**	355,878
Loans receivable		**33,015**	28,409
Pledged bank deposits		**5,842**	5,492
Cash and bank deposits		**35,973**	44,757
Total current assets		**685,508**	716,257
Current liabilities			
Short-term bank borrowings	10	**213,717**	106,770
Bills payable		**23,069**	35,142
Accounts payable	11	**42,848**	74,203
Receipts in advance		**12,062**	8,915
Accrued liabilities		**37,187**	31,493
Taxation payable		**4,747**	3,142
Total current liabilities		**333,630**	259,665
Net current assets		**351,878**	456,592
Total assets less current liabilities		**577,340**	661,749
Non-current liability			
Deferred taxation		**2,070**	2,070
Minority interests		**3,064**	2,921
Net assets		**572,206**	656,758
Representing —			
Share capital	12	**35,498**	35,529
Reserves	13	**530,318**	539,513
Proposed dividends	13	**6,390**	81,716
Shareholders' equity		**572,206**	656,758

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th September, 2001

	Six months ended 30th September, 2001 HK$'000 (unaudited)	2000 HK$'000 (unaudited)
Net cash inflow from operating activities	**8,764**	42,228
Return on investments and service of finance		
Interest received	**1,444**	1,083
Interest paid	**(4,824)**	(6,203)
Dividends paid to shareholders	**(81,716)**	—
Dividends paid to a minority shareholder of a subsidiary	**(315)**	(304)
	(85,411)	(5,424)
Taxation		
Hong Kong profits tax paid	**(2,393)**	(6,146)
Mainland China enterprise income tax paid	**—**	(334)
	(2,393)	(6,480)
Investing activities		
Additions of property, plant and equipment	**(36,657)**	(10,026)
Proceeds from disposal of property, plant and equipment	**1,373**	129
Proceeds from disposal of investment properties	**—**	3,711
Proceeds from disposal of subsidiaries	**—**	1,294
	(35,284)	(4,892)
Net cash (outflow) inflow before financing	**(114,324)**	25,432
Financing		
Proceeds from exercise of warrants	**1**	47,871
Proceeds from exercise of employee share options	**—**	340
Repurchase of shares	**(307)**	(19,969)
	(306)	28,242
(Decrease) Increase in cash and cash equivalents	**(114,630)**	53,674
Cash and cash equivalents, beginning of period	**(56,521)**	(176,767)
Effect of foreign exchange rate changes	**(751)**	1,488
Cash and cash equivalents, end of period	**(171,902)**	(121,605)
Analysis of cash and cash equivalents:		
— Cash and bank deposits	**41,815**	52,362
— Trust receipts bank loans	**(155,917)**	(164,837)
— Short-term bank loans	**(57,800)**	(9,130)
	(171,902)	(121,605)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND PREPARATION

These unaudited condensed financial statements have been prepared in accordance with the principal accounting policies set out in VSC's 2000/2001 annual report except for changes set out below, and comply with Statement of Standard Accounting Practice ("SSAP") Number 25 issued by the Hong Kong Society of Accountants ("HKSA") and the disclosure requirements set out in Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Effective from 1st April, 2001, the following SSAPs issued by the HKSA were adopted by VSC and its subsidiaries:

SSAP 9 (revised):	Events after the balance sheet date
SSAP 14 (revised):	Leases
SSAP 26:	Segment reporting
SSAP 28:	Provisions, contingent liabilities and contingent assets
SSAP 29:	Intangible assets
SSAP 30:	Business combinations
SSAP 31:	Impairment of assets
SSAP 32:	Consolidated financial statements and accounting for investments in subsidiaries

The changes to the VSC Group's accounting policies and the effect of adopting these new policies are set out below:

a. SSAP 9 (revised): Events after the balance sheet date

In prior year, dividends proposed or declared after the balance sheet date in respect of an accounting period prior to the balance sheet date were recognised as a liability at the balance sheet date. In order to comply with SSAP 9 (revised) "Events after the balance sheet date", the VSC Group recognises a liability for dividends in the accounting period in which they are proposed. The new accounting policy has been adopted retrospectively, so that the comparative figures presented have been reinstated to conform to the changed policy. As a result of this change in accounting policy, the VSC Group's liabilities as at 31st March, 2001 were decreased by approximately HK$81,716,000 while shareholders' equity was increased by approximately HK$81,716,000. The change has no impact on the results of operations of the VSC Group for the six months ended 30th September, 2000 and 2001.

b. SSAP 26: Segment reporting

In Note 2 to the unaudited consolidated interim financial statements, the VSC Group has disclosed segment revenue, gross profit and results. The primary segment is defined by major product and operational category, while secondary segment is defined by geographical area.

c. SSAP 28: Provisions, contingent liabilities and contingent assets

A provision is recognised when there is a present obligation, legal or constructive, as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed regularly and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

d. SSAP 30: Business combinations

Goodwill represents the difference between the fair value of the consideration given and the VSC Group's share of the aggregate fair values of the identifiable net assets of subsidiaries acquired. Effective from 1st April, 2001, with the adoption of the new SSAP 30 "Business combinations", goodwill is capitalised in the balance sheet and is amortised to the income statement on a straight-line basis over its estimated useful economic life. This represents a change from prior years where goodwill was eliminated immediately against available revenue reserves. The new accounting policy has been adopted retrospectively. The gain or loss upon disposal of interests in subsidiaries includes the unamortised balance of goodwill relating to the subsidiaries disposed of.

As a result of this change in accounting policy, VSC has reinstated goodwill of approximately HK$60,056,000. The amortisation of the reinstated goodwill for the six months ended 30th September, 2000 and 2001 amounted to approximately HK$19,818,000 and nil, respectively.

e. SSAP 31: Impairment of assets

Goodwill and property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of one of these assets may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss representing the difference between the carrying amount and the recoverable amount, is recognised in the income statement. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of the disposal, while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

Reversal of an impairment loss of an asset recognised in prior years is recorded when there is an indication that the impairment loss recognised for the asset no longer exists or has decreased. The reversal is recorded in the income statement.

Except for the effect as described above, the adoption of the above standards has no material effect on the amounts reported in the prior periods.

2. SEGMENT INFORMATION

The VSC Group's turnover, gross profit and contribution to profit attributable to shareholders by principal activities and geographical area are analysed as follows:

	Six months ended 30th September, 2001			Six months ended 30th September, 2000		
	Turnover	**Gross profit**	**Contribution to profit attributable to shareholders**	Turnover	Gross profit	Contribution to profit attributable to shareholders
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
By principal activities—						
Steel: rebars, piling and flat products	**793,256**	**46,338**	**24,649**	898,991	89,802	29,800
Sanitary ware and kitchen cabinets	**17,049**	**4,325**	**(2,834)**	32,999	7,891	1,349
Processing of rolled steel flat products	**102,230**	**17,306**	**10,198**	131,590	25,285	13,354
Plastics and machinery	**87,567**	**11,356**	**6,562**	156,834	22,505	14,813
Investment income	**3,419**	**3,419**	**704**	1,240	1,240	(4,015)
Total continuing operations	**1,003,521**	**82,744**	**39,279**	1,221,654	146,723	55,301
Discontinuing operations	**11,548**	**33**	**(2,022)**	21,883	(590)	(5,527)
Unallocated corporate (expenses) income			**(22,729)**			290,929
	1,015,069	**82,777**	**14,528**	1,243,537	146,133	340,703
By geographical area*—						
Hong Kong						
— continuing operations	**600,326**	**46,643**	**28,288**	683,631	94,012	60,349
— discontinuing operations	**11,548**	**33**	**(2,022)**	21,883	(590)	(5,527)
	611,874	**46,676**	**26,266**	705,514	93,422	54,822
Mainland China						
— continuing operations	**403,195**	**36,101**	**10,991**	538,023	52,711	(5,048)
Unallocated corporate (expenses) income			**(22,729)**			290,929
	1,015,069	**82,777**	**14,528**	1,243,537	146,133	340,703

* *Turnover by geographical area is determined mainly on the basis of the destination of shipments of merchandise and location of relevant activities.*

3. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging/crediting:

	Six months ended 30th September, 2001 HK$'000	2000 HK$'000
Interest expense on short-term bank borrowings	**4,824**	6,203
Depreciation of property, plant and equipment	**7,023**	7,306
Amortisation of goodwill	**—**	19,818
Loss (Gain) on disposal of property, plant and equipment	**66**	(1)

4. (LOSS) GAIN ON INVESTMENTS

(Loss) Gain on investments, net, is analysed as follows:

	Six months ended 30th September, 2001 HK$'000	2000 HK$'000
Gain on investments	**—**	361,591
Provision for impairment in value of investment in a listed company *(Note 8)*	**(517)**	(35,394)
	(517)	326,197

5. TAXATION

Taxation consisted of:

	Six months ended 30th September, 2001 HK$'000	2000 HK$'000
Current taxation		
— Hong Kong profits tax	**3,992**	12,135
— Mainland China enterprise income tax	**6**	15
	3,998	12,150

6. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30th September, 2001 was based on the unaudited consolidated profit attributable to shareholders of approximately HK$14,528,000 (six months ended 30th September, 2000 — HK$340,703,000) and on the weighted average number of approximately 355,282,000 shares (six months ended 30th September, 2000 — 355,547,000 shares) in issue during the period.

The calculation of diluted earnings per share for the six months ended 30th September, 2001 was based on the unaudited consolidated profit attributable to shareholders of approximately HK$14,528,000 (six months ended 30th September, 2000 — HK$340,703,000) and the diluted weighted average number of approximately 356,929,000 shares (six months ended 30th September, 2000 — 362,671,000 shares) in issue during the period. It has been calculated after taking into account all dilutive instruments outstanding as at 30th September, 2001. The effect of the dilutive potential ordinary shares resulting from the exercise of the outstanding employee share options on the weighted average number of shares in issue during the period was approximately 1,647,000 shares (six months ended 30th September, 2000 — 7,124,000 shares), which were deemed to have been issued at no consideration if all outstanding employee share options had been exercised on the date when the employee share options were granted.

7. PROPERTY, PLANT AND EQUIPMENT

Net book values of property, plant and equipment consisted of:

	As at 30th September, 2001 *HK$'000*	As at 31st March, 2001 *HK$'000*
Land and buildings	**60,486**	61,757
Construction-in-progress	**210**	416
Furniture and equipment	**39,851**	12,647
Machinery	**11,094**	8,933
Motor vehicles	**3,223**	2,543
	114,864	86,296

8. LONG-TERM INVESTMENTS

Long-term investments consisted of:

	As at 30th September, 2001 *HK$'000*	As at 31st March, 2001 *HK$'000*
Investment in shares listed in Hong Kong		
— At cost	**42,722**	42,722
— Change in fair value	**21,896**	39,093
	64,618	81,815
Unlisted investments, at cost	**5,616**	5,616
	70,234	87,431

The investment in shares listed in Hong Kong principally consists of investment in iSteelAsia.com Limited (approximately 17.77%). These shares are stated in the balance sheet at the quoted market value as at 30th September, 2001, with the surplus on the quoted market value over the investment cost credited to the asset revaluation reserve. The impairment in value of another investment of approximately HK$517,000 during the period is considered by VSC's Directors to be other than temporary and has been recognised as an expense in the income statement.

The underlying value of long-term investment is, in the opinion of VSC's Directors, not less than the carrying value as at 30th September, 2001.

9. ACCOUNTS RECEIVABLE

Most of the VSC Group's turnover are made on an open account basis, with credit periods ranging from 30 to 90 days. Credit evaluations of customers are performed periodically to minimise any credit risk associated with customers. The ageing analysis of accounts receivable net of provision is as follows:

	As at 30th September, 2001	As at 31st March, 2001
	HK$'000	*HK$'000*
0 — 60 days	**280,022**	288,069
61 — 120 days	**69,566**	53,904
121 — 180 days	**4,271**	16,847
181 — 365 days	**9,303**	6,290
Over 365 days	**15,813**	6,074
	378,975	371,184
Less: Provision for bad and doubtful debts	**(16,367)**	(15,306)
	362,608	355,878

10. SHORT-TERM BANK BORROWINGS

Short-term bank borrowings consisted of:

	As at 30th September, 2001	As at 31st March, 2001
	HK$'000	*HK$'000*
Trust receipts bank loans	**155,917**	89,490
Short-term bank loans	**57,800**	17,280
	213,717	106,770

Trust receipts bank loans were secured by inventories released under such loans.

11. ACCOUNTS PAYABLE

The ageing analysis of accounts payable is as follows:

	As at 30th September, 2001	As at 31st March, 2001
	HK$'000	*HK$'000*
0 — 60 days	**36,094**	69,296
61 — 120 days	**4,574**	1,287
121 — 180 days	**40**	439
181 — 365 days	**388**	2,158
Over 365 days	**1,752**	1,023
	42,848	74,203

12. SHARE CAPITAL

	For the six months ended 30th September, 2001		For the year ended 31st March, 2001	
	Number of shares	**Nominal value**	Number of shares	Nominal value
	'000	***HK$'000***	*'000*	*HK$'000*
Authorised (ordinary shares of HK$0.10 each)	**1,000,000**	**100,000**	1,000,000	100,000
Issued and fully paid				
(ordinary shares of HK$0.10 each)				
Beginning of period/year	**355,288**	**35,529**	340,882	34,088
Issue upon exercise of warrants *(i)*	**—**	—	23,936	2,394
Issue upon exercise of employee share options	**—**	—	300	30
Repurchase of shares *(ii)*	**(310)**	**(31)**	(9,830)	(983)
End of period /year	**354,978**	**35,498**	355,288	35,529

Notes:

(i) During the six months ended 30th September, 2001, certain warrants were exercised to subscribe for 400 shares (year ended 31st March, 2001 — approximately 23,936,000 shares) of VSC at a consideration of HK$800 (year ended 31st March, 2001 — approximately HK$47,872,000).

(ii) During the six months ended 30th September, 2001, VSC repurchased, through The Stock Exchange of Hong Kong Limited, 310,000 shares (year ended 31st March, 2001 — approximately 9,830,000 shares) at an aggregate consideration of approximately HK$307,000 (year ended 31st March, 2001 — HK$19,969,000) including transaction costs of approximately HK$1,000 (year ended 31st March, 2001 — HK$80,000). These shares were subsequently cancelled. The aggregate cost of the repurchase of shares of approximately HK$307,000 (year ended 31st March, 2001 — HK$19,969,000) was transferred from retained profit to capital redemption reserve. Details of such repurchases are as follows:

Month of repurchase	**Number of shares repurchased**	**Price per share Highest**	**Lowest**	**Aggregate price paid**
		HK$	*HK$*	*HK$*
September 2001	310,000	1.010	0.960	307,271

13. RESERVES AND PROPOSED DIVIDENDS

Movements during the six months ended 30th September, 2001 were:

	Reserves								Proposed dividends
	Share premium	Capital redemption reserve	Statutory reserves	Capital reserve	Asset revaluation reserve	Cumulative translation adjustments	Retained profit	Total	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 1st April, 2001									
— As previously reported	281,570	22,811	301	58,355	53,701	(2,313)	125,088	539,513	—
— Prior period adjustments *(Notes 1.a and 15.a)*	—	—	—	—	—	—	—	—	81,716
— As reinstated	281,570	22,811	301	58,355	53,701	(2,313)	125,088	539,513	81,716
Premium arising from issue of shares upon exercise of warrants	1	—	—	—	—	—	—	1	—
Repurchase of shares	(276)	307	—	—	—	—	(307)	(276)	—
Deficit on revaluation of shares in iSteelAsia.com Limited	—	—	—	—	(16,680)	—	—	(16,680)	—
Profit attributable to shareholders	—	—	—	—	—	—	14,528	14,528	—
Final dividend for the year ended 31st March, 2001, paid	—	—	—	—	—	—	—	—	(81,716)
Interim dividend for the period, proposed	—	—	—	—	—	—	(6,390)	(6,390)	6,390
Translation adjustments	—	—	—	—	—	(378)	—	(378)	—
As at 30th September, 2001	281,295	23,118	301	58,355	37,021	(2,691)	132,919	530,318	6,390

14. RELATED PARTY TRANSACTIONS

The VSC Group had the following significant transactions with related parties:

	Six months ended 30th September, 2001 HK$'000	2000 HK$'000
Metal Logistics Company Limited *(i)*		
— purchases made from the VSC Group	**76,404**	83,690
— commission for procurement services charged to the VSC Group	**743**	996
— administrative service fees earned by the VSC Group	**90**	90
— interest expense paid to the VSC Group	**481**	124
iSteelAsia (Hong Kong) Limited *(i)*		
— administrative service fees earned by the VSC Group	**90**	90
— rental expense paid to the VSC Group	**510**	930
— rates, management fee and utility charges earned by the VSC Group	**115**	261
— interest expense paid to the VSC Group	**—**	26
EC.com Limited *(ii)*		
— rental expense paid to the VSC Group	**506**	337

Notes:

(i) Metal Logistics Company Limited and iSteelAsia (Hong Kong) Limited are wholly owned by iSteelAsia.com Limited, a company in which the VSC Group has an approximately 17.77% equity interest as at 30th September, 2001.

(ii) EC.com Limited is beneficially owned and controlled by Mr. Kwok Tai Tsang, Moses, a non-executive director of VSC.

15. PRIOR PERIOD ADJUSTMENTS

a. SSAP 9 (revised) — As a result of the change in accounting policy following SSAP 9 (revised), the VSC Group's liabilities as at 31st March, 2001 were decreased by approximately HK$81,716,000 while shareholders' equity was increased by approximately HK$81,716,000.

b. SSAP 30 — As a result of this change in accounting policy, VSC has reinstated goodwill of approximately HK$60,056,000. The amortisation of the reinstated goodwill for the six months ended 30th September, 2000 and 2001 amounted to approximately HK$19,818,000 and nil, respectively.

RESULTS

The VSC Group's turnover for the six months ended 30th September, 2001 was HK$1,015 million, a decrease of 18% compared with the same period in 2000. Gross profit and gross margin were reduced by 43% and 31%, respectively. Profit from continuing operations decreased 54% from HK$53.9 million in the previous period to HK$25.0 million in this reporting period. Profit attributable to shareholders was HK$14.5 million, a decrease of 96%. Excluding the one-time gains realised by the spin-off of iSteelAsia.com Limited ("iSA") and loss on investment properties (together referred as "Exceptional (Losses) Gains") in the previous period, profit attributable to shareholders dropped by 53%.

Basic earnings per share, excluding Exceptional (Losses) Gains, decreased by 53% to 4.23 cents. Interim cash dividend decreased to 1.8 cents per share representing a cash dividend payout (excluding Exceptional (Losses) Gains) of 42.5% (2000 — 33.2%). A bonus issue of warrants was also made on November 2001 to the shareholders in the proportion of one warrant for every ten shares then held.

FINANCIAL ANALYSIS

Benefiting from its continuous process improvement programme embarked on since late 2000, in particular the supply chain and sales fulfillment, the VSC Group continued to maintain a very healthy liquidity and financial position. As compared to 31st March, 2001, both current ratio and quick ratio were slightly decreased but still kept at a healthy level of 2.05 and 1.46. Due to slower turnaround of contracted projects, level of bank borrowings was relatively higher and gearing ratio (bank borrowings and bills payable divided by shareholders' equity) accordingly increased to 0.41 from 0.22. The VSC Group's trade financing remained primarily supported by trade line facilities from banks. As in prior years, these lines were secured by the VSC Group's inventories held under short term trust receipts loan arrangement and corporate guarantees by VSC. Interest costs of the import bank loans are levied on US dollar LIBOR/SIBOR basis with very competitive margin. With its increasing business expansion in Mainland China, the VSC Group is also working with several major domestic banks in arranging local currency financing for its businesses and operations in Mainland China.

CHARGES ON ASSETS

The VSC Group had inventories held under short term trust receipts bank loan arrangement and bank deposits of approximately HK$5.8 million pledged for the deposit system required by Mainland China customs office for the Dongguan coil center.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The VSC Group's businesses were primarily transacted in Hong Kong dollar, US dollar, Renminbi ("RMB") and several European currencies. As in prior years, the current peg system in Hong Kong had minimised the VSC Group's exposure in US dollar. The VSC Group's investments and properties in Mainland China amounted to approximately HK$50 million as at 30th September, 2001. As stated above, the VSC Group is aiming to obtain RMB financing to further mitigate its currency exposure on its domestic operation. Transaction values involving European currencies were relatively not significant and hedging by forward contracts had been used as the main tool to reduce such foreign exchange exposure.

CONTINGENT LIABILITIES

As at 30th September, 2001, the VSC Group had contingent liabilities in the form of guarantees of approximately HK$9 million in respect of bank loan, rental deposit and performance bonds.

REVIEW OF OPERATIONS

(1) Construction materials

The VSC Group's construction materials businesses comprise distribution of steel and building products primarily to developers and contractors for construction works in Hong Kong. During the period under review, the local economy depression had resulted in decreased demand for new construction projects. The shrinking property market continued pressuring the rebars and other construction materials markets. For instance, annual consumption forecast of rebars for the Year 2001/2002 drops to 0.8 million tonnes from 1.2 million tonnes in previous year.

Given such adverse market conditions, turnover and profit contribution from the **steel department** declined by 12% and 17%, respectively. The delay in construction of a number of infrastructure projects, the sluggish public and private property sectors, coupled with wet weather in this past summer, had all caused a reduction in the turnover. Gross profit was pressed down by "cut throat" competition, resulting in a very slim margin.

Operationally, the VSC Group continued to enhance logistics and warehousing arrangement to combat the competition and pricing pressure. The VSC Group had also undergone vigorous cost saving measures and logistics improvement to successfully reduce godown rental expenses, increase "Just-in-time" or "Direct pier-to-site" deliveries, reduce transportation and inventory handling costs, and reduce stock level.

Following the discontinuance of Cut and Bend operation in early 2001, the VSC Group repositioned its strategy of total solution provider for its construction materials customers. Considerable efforts had been made in resources rationalisation and reallocation. The VSC Group is now determined to focus on developing the couplers and soil nails businesses, diversifying its range of piling products, including construction beams and sheet piles.

Performance of the **building products department** was a bit disappointing with the department recording a 48% decrease in turnover and suffering loss of HK$2.8 million in the reporting period. But in Year 2000/2001, the VSC Group had been awarded various prestigious kitchen cabinets and bathroom furniture projects, which in aggregate represent more than 5,900 kitchens and 3,000 bathrooms and worth over HK$130 million. However, during the period under review, no turnover could be recognised from these sizeable projects due to delay in construction schedule. It is estimated that these awarded projects would be completed and could render considerable profit contribution in coming 18 months.

The Government had recently suspended sale of Home Ownership Scheme ("HOS") flats for ten months and capped annual sales of HOS units at 9,000 thereafter till 2006. This revised policy had adversely affected the sanitary ware products business in the reporting period and the situation was likely to persist. To maintain its competitiveness and capture more market share, the VSC Group further diversified its list of high-quality products and explored for additional sources of new Brand products. Adding to the list was the exclusive distributorship of Rover artificial marble from Italy. Most of the Rover products had been widely used in shopping arcades, office buildings and hotels, and could be extended to residential buildings. The VSC Group had also secured distributorship of reputable Toto sanitary ware products from Japan and high-end Hansgrohe sanitary fittings and accessories from Germany. A retail shop and showroom is also planned to open in early 2002 to arouse market awareness, enhance company image and offer an additional channel to customers to feel the products and services. The VSC

Group's wide offerings of building products from leading suppliers including Laufen, Toto, Hansgrohe, SieMatic and Rover coupled with its strong financial backing, well-established customer base and professional team could enable its pursuit of profitability in this difficult market.

(2) Industrial products

The VSC Group's industrial products businesses include processed rolled steel flat products of its Dongguan coil centre, engineering plastic resins and injection moulding machines, as well as its newly set up Shenzhen factory for manufacturing enclosure systems. Such industrial products are widely used by various Hong Kong-based, Taiwan-based and local PRC industrial manufacturers of white goods, electrical appliances and computers for export to the US and European markets and by the key domestic telecommunication equipment manufacturers for meeting the local demand. The ongoing slowdown in worldwide economy since 2001, notably in the US, had lowered the demand of our industrial customers' products, which thus adversely affected the growth performance of our industrial products in the period under review.

Dongguan coil centre recorded a relatively smaller decrease under such a difficult operating environment with a 22% decrease in turnover and a 24% down in profit contribution. The decrease in turnover was mainly caused by the declining steel market price whereas the delivered tonnage remained at similar level as compared to the previous period. Targeting on the high-volume customers such as computer and audio-visual products manufacturers, the coil centre successfully maintained the production tonnage by becoming these customers' main supplier. Extensive improvements had also been made to the production logistics and stock management to enhance its competitiveness.

Plastics and machinery department was more adversely affected by the marco economy and recorded a 44% decrease of turnover and a 56% down in profit contribution. Due to the drop in consumer products demand in the US, our customers had mostly scaled back production orders, which cut both the volume and price of the plastic resins. The market price dropped so significantly that some of our suppliers even attempted to directly deal with the customers to maintain its profit margin. We had suffered from such loss of business in the period under review but had actively developed other brands of plastic resins as well as the domestic use market in Mainland China for recapturing the market share.

The new **Van Jia Yuan enclosure systems manufacturing** facility in Shenzhen was officially opened in November 2001. The enclosure systems form an integral part to house various telecommunication and computer equipments for use of fixed line and mobile phone networks with widespread application to GSM, CDMA, GPRS and other communication systems, as well as optical transmission and power supply system. The new plant, equipped with advanced machineries and production lines, is well positioned to serve the ever-increasing demand of telecommunication and IT sectors in Mainland China.

(3) Other investments and associated companies

Despite the poor economic conditions, **iSA** had managed to achieve an encouraging financial result. iSA and its subsidiaries (the "iSA Group") continued to move along its path of profitability with increased turnover and reduced net loss during the period under review. The iSA Group's mandate and core competence remained to focus in providing value-added services to customers in the steel industry. This entailed providing services that range from generating additional marketing and distribution channels to suppliers to providing e-Commercialisation services (e.g. Enterprise Resources Planning ("ERP") system implementation) to customers in the steel industry. During the period under review, the iSA Group had continued to expand its presence in Mainland China and regional offices had been opened in Beijing, Shanghai, Guangzhou and Tianjin. With the successful accession to the World Trade Organisation ("WTO") and the successful bid to host the 2008 Olympic Games, business opportunities in Mainland China are attractive. The strategic acquisition of approximately 0.23% of AcrossAsia Multimedia Limited ("AAM"), another GEM-listed company, in August 2001 by the iSA Group enabled it to further develop new business initiatives as both iSA and AAM are involved in complementary aspects of Internet related business.

The **Baosteel Jingchang joint venture** continued to increase its sales of processed steel to manufacturers of computer and electric appliances. Profitability was however adversely hit by the decline in flat product price as well as keen competition. The **Dongguan pier operation** also suffered from a reduction in volume of imported goods and containers handled, primarily due to the increase in stockpiles of the customers and the downturn in US economy. Both operations thus recorded slight losses in the period under review. The **GFTZ fuel company** achieved steady progress in its operational results and had also made repayments to its outstanding guaranteed return receivables. The VSC Group would closely monitor performance of these investments and associated companies in a proactive manner.

PROSPECTS

It had been the most difficult period the VSC Group had encountered since its listing in 1994. The slowdown in both the domestic and global market coupled by the September 11 events in the US had further brought about deepening uncertainties on both Hong Kong and Mainland China.

For the construction materials operation, the Government is already investing over HK$400 billion in more than 1,600 projects in infrastructure development, most of which are due to be completed within the next nine years. Major works in progress include Castle Peak Road improvements, Phase I of Hong Kong Disneyland and the Science Park in Pak Shek Kok. The two railway corporations are currently working on six projects — West Rail, the MTR Tseung Kwan O Extension, the Ma On Shan Line, the KCR Extension to Tsim Sha Tsui, the Penny's Bay Rail Link and the Sheung Shui to Lok Ma Chau Spur Line. Today, the VSC Group has contracts-on-hand worth around HK$850 million, of which a substantial portion is on the above-mentioned infrastructure development and railways projects. Despite the economic uncertainties, the management thus still remains cautiously optimistic about the future prospect of the construction materials businesses in view of the low interest borrowing rate, the attractive financing packages offered to home purchasers, and several upcoming large scale projects such as Route 9 Tsing Yi via Ngong Shuen Chau to Sha Tin Section, Route 10 linking North Lantau and Yuen Long Highway, Deep Bay Link, Shenzhen-Hong Kong Western Corridor and the ongoing infrastructure projects invested by the Government and the two railway corporations.

As for the industrial products operation, China's recent accession to the WTO is expected to change the business landscape and open unprecedented assess to those high-growth industries and markets. The VSC Group had planned and positioned itself well in advance in these sectors to capitalise this unique opportunity. The VSC Group will continue to reinforce its total solution provider strategy by sound account management to promote cross selling between coil centre and plastics customers and increasing its organic growth. Additional efforts will be made in the form of investment and/or acquisition to further expand the existing VSC offerings to serve the customers in Mainland China. The new enclosure systems manufacturing business will grasp the vast opportunities from the high-growth telecommunication industries with a projected annual growth rate of over 20% through 2005. The VSC Group would also explore to develop total solutions for its telecommunication customers by extending to producing and assembly of other related network support equipments.

As in before, the VSC Group is committed to meet the challenges ahead. We will deploy our resources to develop high-yield markets and take stringent cost control measures in delivering values to the shareholders.

The management of VSC is highly appreciative of the support and confidence its shareholders placed on them. The management is committed to continue to improve the profitability of the VSC Group's operations, while exploring different alternatives to enhance the value of the VSC Group.

EMPLOYEE AND REMUNERATION POLICIES

As at 30th September, 2001, the VSC Group employed 360 staff. Salaries and annual bonuses are determined according to positions and performance of the employees. The VSC Group provides on-the-job training to its employees in addition to retirement benefits schemes and medical insurance. Total staff costs including contribution to retirement benefit schemes incurred during the 6-month period under review amounted to approximately HK$25 million. To enable its employees to participate in the growth of the VSC Group, VSC adopted a share option scheme on 22nd January, 1994 (the "Old Share Option Scheme"). Details of the Old Share Option Scheme were disclosed in the 2000/2001 annual report of VSC. In compliance with the amendments to the Listing Rules, VSC had terminated the Old Share Option Scheme with effect from 12th November, 2001. No further options will be granted thereunder but in other respects, the provisions of the Old Share Option Scheme remain in force and all options granted prior to the termination continue to be valid and exercisable in accordance therewith. A new share option scheme had been adopted since 12th November, 2001 (the "New Share Option Scheme"). Up to the date of this interim report, no options have been offered and/or granted to any participants thereunder the New Share Option Scheme.

INTERIM DIVIDEND

The Directors have declared an interim dividend of 1.8 cents per share for the six months ended 30th September, 2001 payable to shareholders whose names appear on the Register of Members of VSC at the close of business on 18th January, 2002. Dividend warrants are expected to be despatched on or before 23rd January, 2002.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of VSC will be closed from 16th January, 2002 to 18th January, 2002 (both dates inclusive) during which period no transfers of shares will be registered. In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with VSC's Registrars in Hong Kong, Central Registration Hong Kong Limited by not later than 4:00 p.m. (Hong Kong SAR time) on 15th January, 2002.

DIRECTORS' INTERESTS IN SHARES, WARRANTS AND EMPLOYEE SHARE OPTIONS

As at 30th September, 2001, the interests of directors and their respective associates in the shares of HK$0.10 each in the capital of VSC ("Shares") as recorded in the register maintained by VSC under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to VSC and The Stock Exchange of Hong Kong Limited, were as follows:

Name	Number of Shares	Number of Warrants *(Note a)*	Number of employee share options
Mr. Yao Shu Sheng *(Note b)*	—	—	6,000,000
Mr. Yao Cho Fai, Andrew *(Notes c and d)*	204,624,000	—	6,900,000
Ms. Yao Che Li, Miriam *(Notes c and f)*	204,624,000	—	2,000,000
Mr. Dong Yuen Jih *(Note e)*	4,874,400	—	—
Mr. Ho Sai Hou, Johnson *(Note g)*	466,400	160,880	900,000
Dr. Shao You Bao *(Notes h and i)*	1,200,000	—	—
Mr. Ting Woo Shou, Kenneth *(Note j)*	2,402,000	141,600	—

Notes:

a. The warrants ("Warrants") of VSC's conferred rights to subscribe in cash for Shares, on the basis of a subscription price of HK$2.00 per Share (subject to adjustment) during the period from 16th February, 2000 to 16th February, 2002 (both dates inclusive).

b. Mr. Yao Shu Sheng was interested in options under the Old Share Option Scheme to subscribe for an aggregate of 6,000,000 Shares in VSC at HK$0.9360 per Share exercisable during the period from 1st April, 1996 to 31st March, 2003. These interests were personal interests in VSC as described in Practice Note 5 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

c. As at 30th September, 2001, Huge Top Industrial Ltd. ("Huge Top") held 204,624,000 Shares of VSC. The board of directors of Huge Top only comprises Mr. Yao Cho Fai, Andrew and Ms. Yao Che Li, Miriam, who are also VSC's Directors. Mr. Yao Cho Fai, Andrew, directly and indirectly through Perfect Capital International Corp., owned more than one-third of the issued shares of Huge Top and is entitled to exercise more than one-third of the voting power at general meetings of Huge Top. The interests of the aforesaid Directors in the issued Shares of VSC were corporate interests in VSC as described in Practice Note 5 of the Listing Rules.

d. Mr. Yao Cho Fai, Andrew was also interested in options under the Old Share Option Scheme to subscribe for an aggregate of 2,000,000 Shares, 2,000,000 Shares and 2,900,000 Shares in VSC at HK$1.1344, HK$1.2528 and HK$1.3840, respectively, per Share exercisable during the periods from 15th January, 1997 to 15th January, 2004 (in the case of the options which are exercisable at HK$1.1344 and HK$1.2528 per Share) and from 1st May, 1998 to 22nd January, 2004 (in the case of the options which are exercisable at HK$1.3840 per Share). These interests were personal interests in VSC as described in Practice Note 5 of the Listing Rules.

e. Mr. Dong Yuen Jih held 4,874,400 Shares of VSC. These interests were personal interests in VSC as described in Practice Note 5 of the Listing Rules.

f. Ms. Yao Che Li, Miriam was also interested in options under the Old Share Option Scheme to subscribe for an aggregate of 2,000,000 Shares in VSC at HK$1.1344 per Share exercisable during the period from 15th January, 1997 to 15th January, 2004. These interests were personal interests in VSC as described in Practice Note 5 of the Listing Rules.

g. Mr. Ho Sai Hou, Johnson held 466,400 Shares and 160,880 Warrants of VSC. He was also interested in options under the Old Share Option Scheme to subscribe for an aggregate of 500,000 Shares and 400,000 Shares in VSC at HK$1.1344 and HK$1.3840, respectively, per Share exercisable during the periods from 15th January, 1997 to 15th January, 2004 (in the case of the options which are exercisable at HK$1.1344 per Share) and from 1st May, 1998 to 22nd January, 2004 (in the case of the options which are exercisable at HK$1.3840 per Share). These interests were personal interests in VSC as described in Practice Note 5 of the Listing Rules.

h. Dr. Shao You Bao held 600,000 Shares of VSC. These interests were personal interests in VSC as described in Practice Note 5 of the Listing Rules.

i. Ms. Hsu Chi Kung, wife of Dr. Shao You Bao, held 600,000 Shares of VSC. The interests of Dr. Shao You Bao in these Shares were family interests in VSC as described in Practice Note 5 of the Listing Rules.

j. Mr. Ting Woo Shou, Kenneth held 2,402,000 Shares and 141,600 Warrants of VSC. These interests were personal interests in VSC as described in Practice Note 5 of the Listing Rules.

Other than disclosed herein, as at 30th September, 2001, neither the Directors nor their associates had any interests in any Shares of VSC (within the meaning of the SDI Ordinance) which were required to be notified to VSC pursuant to Section 28 of the SDI Ordinance or which were required to be recorded under Section 29 of the SDI Ordinance.

SUBSTANTIAL SHAREHOLDER

As at 30th September, 2001, according to the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance, VSC had been notified of the following interest (other than those interests of Directors disclosed above), being 10% or more of the issued share capital of VSC:

Name	Number of issued Shares	Shareholding percentage	Number of Warrants
Huge Top Industrial Ltd.	204,624,000	57.64%	—

Save as disclosed above, VSC had no notice of any interests required to be recorded under Section 16(1) of the SDI Ordinance as at 30th September, 2001.

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 throughout the six months ended 30th September, 2001, 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.

AUDIT COMMITTEE

In compliance with the requirements set by The Stock Exchange of Hong Kong Limited, the VSC Group set up its Audit Committee in December 1998. The Committee consists of three non-executive directors, Mr. Ting Woo Shou, Kenneth as Chairman and Dr. Chow Yei Ching and Dr. Shao You Bao as members. 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 unaudited consolidated interim financial statements for the six months ended 30th September, 2001 of VSC now reported on have been reviewed by the Audit Committee.

PURCHASE, SALE OR REDEMPTION OF SHARES AND WARRANTS

During the six months ended 30th September, 2001, VSC repurchased 310,000 shares of its own shares on The Stock Exchange of Hong Kong Limited, which were then cancelled. Please refer to Note 12 for details of the repurchase.

On behalf of the Board of Directors
Yao Cho Fai, Andrew
Chairman

Hong Kong, 21st December, 2001

http://www.vschk.com
http://www.isteelasia.com