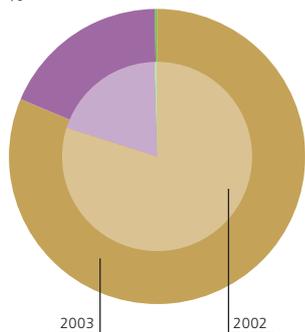




Turnover by Business Segment
for the 6 months ended 30th September
%



CAMP	18.43	19.65
CMG	81.49	80.19
Other Operations	0.08	0.16

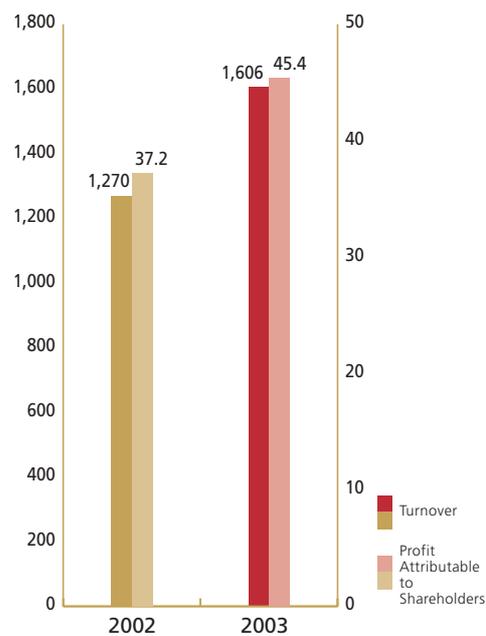
Van Shung Chong Holdings Limited Financial Cockpit Chart

Turnover & Profit Attributable to Shareholders

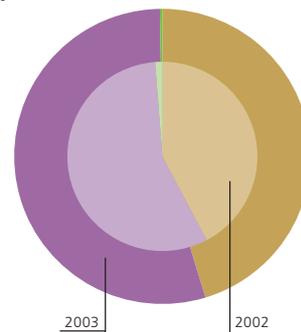
for the 6 months ended 30th September

HK\$ million
Turnover

HK\$ million
Profit
Attributable to
Shareholders

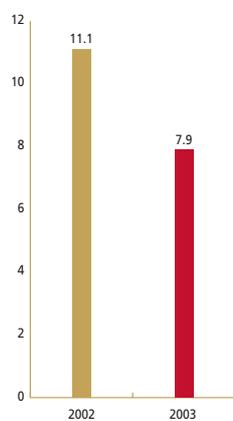


Segment Results by Business Segment
for the 6 months ended 30th September
%

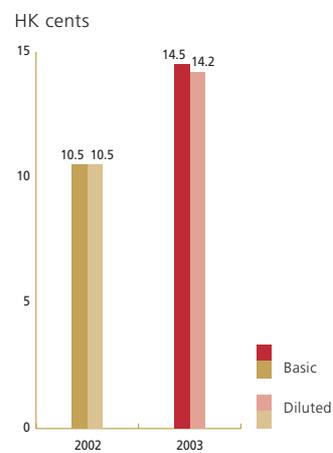


CAMP	54.43	56.70
CMG	45.30	42.07
Other Operations	0.27	1.23

Interest Cover
for the 6 months ended
30th September

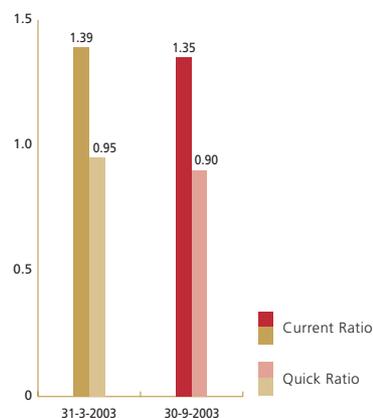


Earnings Per Share
for the 6 months ended
30th September



Liquidity Ratios

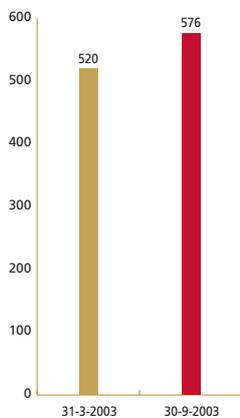
as at



Shareholders' Equity

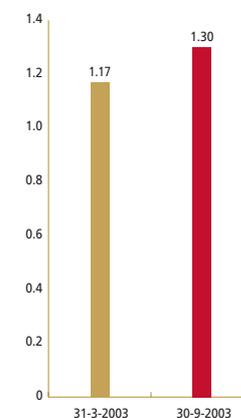
as at

HK\$ million



Gearing Ratio

as at



UNAUDITED INTERIM RESULTS

The Board of Directors of Van Shung Chong Holdings Limited ("VSC" or the "Company") hereby announces the unaudited condensed accounts of VSC and its subsidiaries (the "VSC Group") as at and for the six months ended 30th September 2003, together with comparative figures, as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30th September 2003

	Note	Six months ended 30th September	
		2003 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)
Turnover	2	1,605,677	1,270,354
Cost of sales		(1,488,922)	(1,160,331)
Gross profit		116,755	110,023
Other revenue		6,981	5,008
Selling and distribution expenses		(9,424)	(8,816)
General and administrative expenses		(53,490)	(60,496)
Gain on disposal of an investment property		1,686	—
Operating profit	3	62,508	45,719
Finance cost		(7,956)	(4,114)
Profit before taxation		54,552	41,605
Taxation	4	(7,128)	(690)
Profit after taxation but before minority interests		47,424	40,915
Minority interests		(2,073)	(3,666)
Profit attributable to shareholders		45,351	37,249
Dividends	5	9,831	—
Earnings per share	6		
— Basic		14.5 cents	10.5 cents
— Diluted		14.2 cents	10.5 cents

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th September 2003

	Note	As at 30th September 2003 HK\$'000 (Unaudited)	As at 31st March 2003 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	7	127,720	125,789
Investment properties		32,056	31,000
Investment in associates		2	2
Long-term investments	8	78,797	45,711
Goodwill		3,699	4,624
Deferred tax assets	13	456	—
Total non-current assets		242,730	207,126
Current assets			
Inventories		459,639	381,477
Gross amount due from customers for installation contract work		13,255	19,034
Prepayments, deposits and other receivables		80,971	79,520
Accounts receivable	9 & 15	735,836	655,025
Loans receivable		6,891	6,891
Pledged bank deposit		2,017	7,957
Cash and bank deposits		68,747	61,674
Total current assets		1,367,356	1,211,578
Current liabilities			
Short-term borrowings	10	737,257	590,667
Accounts and bills payable	11	201,418	212,020
Receipts in advance		32,757	29,782
Accrued liabilities and other payables		25,548	27,938
Gross amount due to customers for installation contract work		1,751	4,590
Taxation payable		11,537	6,076
Total current liabilities		1,010,268	871,073
Net current assets		357,088	340,505
Total assets less current liabilities		599,818	547,631
Non-current liabilities			
Long-term bank loan, non-current portion	12	14,625	20,475
Deferred taxation	13	247	250
Total non-current liabilities		14,872	20,725
Minority interests			
		8,575	6,502
Net assets		576,371	520,404
Represented by:			
Share capital	14	31,509	31,226
Reserves		535,031	471,067
Proposed dividend		9,831	18,111
Shareholders' equity		576,371	520,404

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30th September 2003 (Unaudited)

	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Other reserves HK\$'000	Capital reserve HK\$'000	Asset revaluation reserve HK\$'000	Cumulative foreign currency translation adjustments HK\$'000	Retained profit HK\$'000	Proposed dividend HK\$'000	Total HK\$'000
As at 1st April 2003	31,226	236,585	76,235	301	58,355	(12,598)	(2,656)	114,845	18,111	520,404
Profit attributable to shareholders	—	—	—	—	—	—	—	45,351	—	45,351
Repurchase of shares	(102)	(866)	968	—	—	—	—	(968)	—	(968)
Issuance of shares upon exercise of warrants and employee stock options	385	3,948	—	—	—	—	—	—	—	4,333
Change in fair value of long-term investments	—	—	—	—	—	25,285	—	—	—	25,285
Transfer to reserves	—	—	—	1,826	—	—	—	(1,826)	—	—
Proposed dividend	—	—	—	—	—	—	—	(9,831)	9,831	—
Dividends paid	—	—	—	—	—	—	—	56	(18,111)	(18,055)
Translation adjustments	—	—	—	—	—	—	21	—	—	21
As at 30th September 2003	31,509	239,667	77,203	2,127	58,355	12,687	(2,635)	147,627	9,831	576,371

For the six months ended 30th September 2002 (Unaudited)

As at 1st April 2002	35,498	281,295	23,118	301	58,355	(1,072)	(2,686)	125,661	2,840	523,310
Profit attributable to shareholders	—	—	—	—	—	—	—	37,249	—	37,249
Release upon disposal of a long-term investment	—	—	—	—	—	563	—	—	—	563
Change in fair value of long-term investments	—	—	—	—	—	(1,193)	—	—	—	(1,193)
Dividends paid	—	—	—	—	—	—	—	—	(2,840)	(2,840)
Translation adjustments	—	—	—	—	—	—	8	—	—	8
As at 30th September 2002	35,498	281,295	23,118	301	58,355	(1,702)	(2,678)	162,910	—	557,097

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th September 2003

	Six months ended 30th September	
	2003 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)
Net cash inflow (outflow) from operating activities	25,311	(10,992)
Net cash outflow from investing activities	(17,508)	(1,698)
Net cash (outflow) inflow from financing activities	(6,691)	13,027
Increase in cash and cash equivalents	1,112	337
Cash and cash equivalents at 1st April	69,631	48,554
Effect of foreign exchange rate changes	21	34
Cash and cash equivalents at 30th September	<u>70,764</u>	<u>48,925</u>
Analysis of cash and cash equivalents:		
— Cash and bank deposits	<u>70,764</u>	<u>48,925</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM ACCOUNTS

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The unaudited consolidated condensed accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25, "Interim financial reporting" issued by the Hong Kong Society of Accountants ("HKSA").

These condensed accounts should be read in conjunction with the annual accounts of the VSC Group for the year ended 31st March 2003.

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 31st March 2003 except that the VSC Group has changed an accounting policy following its adoption of SSAP 12 (revised) "Income taxes" issued by the HKSA which is effective for accounting period commencing on or after 1st January 2003.

In prior years, deferred taxation was provided for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future.

Under the SSAP 12 (revised), deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

The adoption of the SSAP 12 (revised) represents a change in accounting policy which has been applied retrospectively. The adoption of the SSAP 12 (revised) has no significant effect on the VSC Group's results for the prior accounting periods.

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 steel flat 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.

An analysis of the VSC Group’s revenue and results for the period by business segment is as follows:

	CAMP HK\$’000	CMG HK\$’000	Other operations HK\$’000	Total HK\$’000
For the six months ended 30th September 2003				
Turnover				
Sales to external customers	295,956	1,308,416	1,305	1,605,677
Segment result	39,873	33,187	198	73,258
Other revenue	557	50	6,374	6,981
Gain on disposal of an investment property	—	—	1,686	1,686
Unallocated corporate expenses				(19,417)
Operating profit				62,508
Finance cost				(7,956)
Taxation				(7,128)
Minority interests				(2,073)
Profit attributable to shareholders				45,351
For the six months ended 30th September 2002				
Turnover				
Sales to external customers	249,601	1,018,716	2,037	1,270,354
Segment result	36,556	27,121	794	64,471
Other revenue	177	14	4,817	5,008
Unallocated corporate expenses				(23,760)
Operating profit				45,719
Finance cost				(4,114)
Taxation				(690)
Minority interests				(3,666)
Profit attributable to shareholders				37,249

3. OPERATING PROFIT

Operating profit is stated after charging and crediting the following:

	Six months ended 30th September	
	2003	2002
	HK\$'000	HK\$'000
Charging		
Depreciation of property, plant and equipment	8,373	8,117
Amortisation of goodwill	925	925
Staff costs	27,124	25,481
Loss on disposal of property, plant and equipment	34	—
	<hr/>	<hr/>
Crediting		
Gain on disposal of property, plant and equipment	—	80
Gain on disposal of an investment property	1,686	—
	<hr/>	<hr/>

4. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the VSC Group operates.

The amount of taxation charged/(credited) to the consolidated profit and loss account represents:

	Six months ended 30th September	
	2003	2002
	HK\$'000	HK\$'000
Current taxation:		
— Hong Kong profits tax	6,054	4,034
— Overseas taxation	1,533	945
— Over-provisions in prior years	—	(4,289)
Deferred taxation relating to the origination and reversal of temporary differences	(459)	—
	<hr/>	<hr/>
	7,128	690
	<hr/>	<hr/>

5. DIVIDENDS

	Six months ended 30th September	
	2003	2002
	HK\$'000	HK\$'000
Proposed interim dividend of HK3.1 cents (2002: Nil) per ordinary share	9,831	—
	<hr/>	<hr/>

6. EARNINGS PER SHARE

The calculations of basic and diluted earnings per share for the six months ended 30th September 2003 are based on the VSC Group's profit attributable to shareholders of approximately HK\$45,351,000 (six months ended 30th September 2002: HK\$37,249,000).

The calculation of basic earnings per share for the six months ended 30th September 2003 is based on the weighted average number of approximately 312,020,000 (six months ended 30th September 2002: 354,979,000) ordinary shares in issue during the period. The calculation of diluted earnings per share for the six months ended 30th September 2003 is based on approximately 319,456,000 (six months ended 30th September 2002: 355,201,000) ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average number of approximately 7,436,000 (six months ended 30th September 2002: 222,000) ordinary shares deemed to be issued at no consideration if all outstanding warrants and employee share options had been exercised.

7. PROPERTY, PLANT AND EQUIPMENT

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

	As at 30th September 2003 HK\$'000	As at 31st March 2003 HK\$'000
Land and buildings	59,083	60,560
Construction-in-progress	105	6,152
Furniture and equipment	30,921	21,322
Machinery	34,745	34,145
Motor vehicles	2,866	3,610
	127,720	125,789

8. LONG-TERM INVESTMENTS

Long-term investments consisted of:

	As at 30th September 2003 HK\$'000	As at 31st March 2003 HK\$'000
Investment in shares listed in Hong Kong		
— At cost	42,438	42,438
— Change in fair value	(1,920)	(27,206)
	40,518	15,232
Unlisted investments		
— At cost	38,376	30,576
— Accumulated impairment loss	(97)	(97)
	38,279	30,479
	78,797	45,711

As at 30th September 2003, the investment in shares listed in Hong Kong includes approximately 19.2% (as at 31st March 2003: 19.2%) equity interests in iSteelAsia Holdings Limited (formerly known as iSteelAsia.com Limited), a company incorporated in Bermuda whose shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. These investments are stated in the balance sheet at the quoted market value at 30th September 2003.

The underlying value of long-term investments is, in the opinion of VSC's Directors, not less than the carrying value at 30th September 2003.

9. ACCOUNTS RECEIVABLE

A major portion of the VSC Group's sales are transacted 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. Ageing analysis (based on ageing date) of accounts receivable was as follows:

	As at 30th September 2003 HK\$'000	As at 31st March 2003 HK\$'000
0 - 60 days	368,371	416,753
61 - 120 days	199,775	151,048
121 - 180 days	51,479	42,336
181 - 365 days	117,807	43,175
Over 365 days	10,621	16,289
	748,053	669,601
Less: Provision for bad and doubtful debts	(12,217)	(14,576)
	735,836	655,025

As at 30th September 2003, retentions from installation contract work of approximately HK\$6,585,000 (as at 31st March 2003: HK\$5,265,000) were included in accounts receivable, which were not paid until the satisfaction of conditions specified in the contracts for the payment of such amounts.

10. SHORT-TERM BORROWINGS

Short-term borrowings consisted of:

	As at 30th September 2003 HK\$'000	As at 31st March 2003 HK\$'000
Bank loans		
— Trust receipts bank loans	623,619	490,879
— Short-term bank loans	67,063	59,063
— Long-term bank loan, current portion (see Note 12)	8,775	2,925
	<hr/> 699,457	<hr/> 552,867
Other loans	37,800	37,800
	<hr/> 737,257	<hr/> 590,667

Other loans represented short-term loans from a minority shareholder of a subsidiary and a company relating to the minority shareholder. These loans are unsecured and bear interest at 5.0% to 5.5% per annum.

11. ACCOUNTS AND BILLS PAYABLE

Ageing analysis (based on ageing date) of accounts and bills payable was as follows:

	As at 30th September 2003 HK\$'000	As at 31st March 2003 HK\$'000
0 - 60 days	182,902	196,722
61 - 120 days	6,166	6,042
121 - 180 days	7,593	2,235
181 - 365 days	715	1,982
Over 365 days	4,042	5,039
	<hr/> 201,418	<hr/> 212,020

12. LONG-TERM BANK LOAN

Long-term bank loan consisted of:

	As at 30th September 2003 HK\$'000	As at 31st March 2003 HK\$'000
Amounts payable		
— within one year	8,775	2,925
— within one to two years	11,700	11,700
— within two to three years	2,925	8,775
	<hr/> 23,400	<hr/> 23,400
Less: Amount due within one year included under current liabilities (see Note 10)	(8,775)	(2,925)
	<hr/> 14,625	<hr/> 20,475

13. DEFERRED TAXATION

Deferred taxation was calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5%.

The movement on the deferred tax liabilities/(assets) accounts was as follows:

	As at 30th September 2003 HK\$'000	As at 31st March 2003 HK\$'000
Deferred tax liabilities		
At the beginning of the period/year	250	250
Deferred taxation credited to profit and loss account	(3)	—
	<hr/>	<hr/>
At the end of the period/year	247	250
	<hr/> <hr/>	<hr/> <hr/>
Provided for in respect of accelerated depreciation allowances	247	250
	<hr/> <hr/>	<hr/> <hr/>
Deferred tax assets		
At the beginning of the period/year	—	—
Deferred taxation credited to profit and loss account	(456)	—
	<hr/>	<hr/>
At the end of the period/year	(456)	—
	<hr/> <hr/>	<hr/> <hr/>
Provided for in respect of decelerated depreciation allowances	(18)	—
Provided for in respect of other timing differences	(438)	—
	<hr/>	<hr/>
	(456)	—
	<hr/> <hr/>	<hr/> <hr/>

14. SHARE CAPITAL

	For the six months ended 30th September 2003		For the year ended 31st March 2003	
	Number of shares '000	Nominal value HK\$'000	Number of shares '000	Nominal value HK\$'000
Authorised (ordinary shares of HK\$0.10 each)	1,000,000	100,000	1,000,000	100,000
	<hr/>		<hr/>	
Issued and fully paid (ordinary shares of HK\$0.10 each)				
Beginning of period/year	312,257	31,226	354,979	35,498
Issue of shares upon exercise of warrants (i)	52	5	—	—
Issue of shares upon exercise of employee share options (i)	3,800	380	10,500	1,050
Repurchase of shares (ii)	(1,016)	(102)	(53,222)	(5,322)
	<hr/>		<hr/>	
End of period/year	315,093	31,509	312,257	31,226
	<hr/> <hr/>		<hr/> <hr/>	

Notes:

- (i) During the six months ended 30th September 2003, certain warrants and employee share options were exercised to subscribe for approximately 52,000 shares and 3,800,000 shares (year ended 31st March 2003: 120 shares and 10,500,000 shares), respectively, of VSC at a consideration of approximately HK\$61,000 and HK\$4,272,000 (year ended 31st March 2003: HK\$142 and HK\$4,135,000), respectively.
- (ii) During the six months ended 30th September 2003, VSC repurchased 1,016,000 shares (year ended 31st March 2003: 53,222,263 shares) at an aggregate consideration of approximately HK\$968,000 (year ended 31st March 2003: HK\$53,117,000), including transaction costs. These shares were subsequently cancelled. The aggregate cost of the repurchase of shares of approximately HK\$968,000 (year ended 31st March 2003: HK\$53,117,000) was transferred from retained profit to capital redemption reserve. Details of such repurchases were as follows:

Month of repurchase	Number of shares repurchased	Price per share		Aggregate price paid HK\$
		Highest HK\$	Lowest HK\$	
April 2003	1,016,000	0.95	0.93	968,283

15. RELATED PARTY TRANSACTIONS

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

	Six months ended 30th September	
	2003 HK\$'000	2002 HK\$'000
Metal Logistics Company Limited (i)		
— sales made by the VSC Group	105,591	113,818
— commission for procurement services paid/payable by the VSC Group	1,079	1,117
— administrative service fees earned by the VSC Group	90	90
— interest earned by the VSC Group	2,881	2,073
iSteelAsia (Hong Kong) Limited (i)		
— administrative services fee earned by the VSC Group	90	90
— rental earned by the VSC Group	117	300

Note:

- (i) Metal Logistics Company Limited and iSteelAsia (Hong Kong) Limited are wholly owned by iSteelAsia Holdings Limited (formerly known as iSteelAsia.com Limited), a company in which the VSC Group has a 19.2% equity interest as at 30th September 2003 (as at 31st March 2003: 19.2%).
- b. The amount due from a related company arising from transactions described in Note 15.a is included in accounts receivable. Details of such balance are as follows:

	As at 30th September 2003 HK\$'000	As at 31st March 2003 HK\$'000
	Metal Logistics Company Limited (i)	208,007

Note:

- (i) The balance, arising mainly from the purchase of steel, was unsecured, repayable within the VSC Group's normal credit term for trading transactions and bore interest at commercial lending rates for overdue balances.

16. SUBSEQUENT EVENT

On 27th October 2003, the VSC Group obtained a HK\$250 million three-year revolving credit and term loan facility from a syndicate of nine banks.

RESULTS

The VSC Group's performance for the first half of the fiscal year was encouraging. Turnover for the six months ended 30th September 2003 was HK\$1,606 million, an increase of 26% compared with the same period in 2002. In line with the VSC Group's earlier stated intention to expand in the fast growing China market, the increase was mainly attributable to increase in turnover of steel processing and distribution in Mainland China, with China Advanced Materials Processing ("CAMP") operations growing by 19% and Construction Materials Group ("CMG") operations growing by 28%, respectively. However, in light of the substantial monetary resources involved and credit standing of potential customers, the VSC Group adopts a very prudent approach in developing the steel distribution business in Mainland China, normally transactions are done on a back-to-back arrangement and cash on delivery basis, resulting in a lower margin than the rest of the business units within the VSC Group. As such, overall gross margin of the VSC Group decreased from 8.7% to 7.3%. With the VSC Group's continuous efforts in cost savings, general and administrative expenses were reduced by approximately HK\$7 million or a decrease of 12% from same period last year. Savings mainly stem from the reduction in office rental costs and professional fees. Profit attributable to shareholders was HK\$45.4 million, an increase of 22% as compared to the six months ended 30th September 2002.

Basic earnings per share increased by 38% to HK14.5 cents due to the increase in profit attributable to shareholders coupled with the reduction in share capital as a result of the VSC Group's voluntary share repurchase exercise completed in January 2003. Interim dividend of HK3.1 cents per share was declared for the period (2002: Nil).

FINANCIAL ANALYSIS

After the rationalisation exercises underwent by the VSC Group over the past few years, the VSC Group essentially consists of two main divisions - CAMP and CMG. Although both divisions focus on the VSC Group's core competences in steel, they are quite distinct in their business models. The CMG division, which primarily involves in the distribution of steel products to end users, is a high volume turnover business with relatively thinner but healthy margin. On the other hand, the CAMP division is predominantly a value added physical processing in factories business that generates much higher margin, but requiring strong capital investment for growth. Despite the differences of the two distinctly different business models, the VSC Group as a whole continued to maintain a healthy liquidity and financial position. As compared to 31st March 2003, both current ratio and quick ratio have slightly decreased but were still kept at a healthy level of 1.35 and 0.90. Gearing ratio (interest bearing short-term borrowings and long-term bank loan divided by shareholders' equity) increased from 1.17 to 1.30 which is mainly attributable to the growth of businesses. 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 increases in inventories and accounts receivable of the increased business activities. As such, the strong cash flow generated from the VSC Group's operations continues to forge the VSC Group's expansion in its business. The VSC Group's trade financing remained primarily supported by its HK\$1.5 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 businesses 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 businesses and operations in Mainland China.

In October 2003, the VSC Group successfully secured a HK\$250 million three-year revolving credit and term loan facility from a syndicate of nine reputable international and local banks. The facility will further strengthen the financial position and enable the VSC Group to be more flexible in capturing market opportunities in its business growth in China. These additional resources will be used to expand the VSC Group's business in China, especially for the CAMP division.

CHARGES ON ASSETS

The VSC Group had certain inventories held under short-term trust receipts bank loan arrangements and bank deposit of approximately HK\$2 million and inventory of approximately HK\$13 million pledged for certain of its RMB bank loans.

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. The VSC Group's cash and bank deposits, including pledged bank deposit, were mainly denominated in Hong Kong dollar, US dollar and RMB. Taking advantage of recent weak US dollar against HK dollar, the VSC Group had hedged US\$22.2 million forward contracts at favourable rates. The VSC Group will monitor closely the US dollar exchange rate and make necessary forward contracts to reduce foreign exchange exposure. The VSC Group's investments and properties in Mainland China amounted to approximately HK\$106 million as at 30th September 2003. As stated above, the VSC Group is aiming to obtain more RMB financing to further mitigate its currency exposure on its domestic operations in Mainland China. Transaction values involving Euro dollar were relatively insignificant and hedging by forward contracts had been used as the main tool to reduce such foreign exchange exposure.

CONTINGENT LIABILITIES

As at 30th September 2003, the VSC Group had contingent liabilities in the form of guarantees of approximately HK\$19 million.

COMMITMENTS

There was no material change in commitments since 31st March 2003.

REVIEW OF OPERATIONS

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

The businesses of CAMP operations of the VSC Group consist of processing of rolled steel in coil, manufacture of enclosure systems and distribution of engineering plastic resins and injection moulding machines. For the period under review, turnover and operating profit before unallocated corporate expenses of CAMP as a whole increased by 19% to HK\$296 million, and 9% to HK\$40 million, respectively. On a return to equity basis, the CAMP operations continue to be the growth engine for the VSC Group, contributing about half of the operating profit on only 18% share of the VSC Group's total turnover.

Coil Centre Operations

The coil centre operations achieved an overall 13% incremental increase in turnover but an 18% decrease in gross profit. Affected by the SARS epidemic during the first quarter, sales volume in tonnage for the Dongguan coil centre had been adversely affected as customers' orders were delayed or even cancelled. Since offshore customers were refraining from traveling to Mainland China due to SARS, such delay/cancellation were thus caused by the temporary slowdown of orders from the overseas customers of the OEM vendors or manufacturers of international brand names we served. Through the persistent effort of our sales team and the earlier than expected contribution of Tianjin coil centre since July 2003, the coil centre operations' overall sales turnover achieved for the period still amounted to HK\$153 million.

As stated above, **Dongguan Coil Centre (“DGCC”)** faced certain challenges at the beginning of this financial year, as a result of the outbreak of SARS. Both the market price and volume of orders declined. Yet sales volume started increasing quickly and price recovered in the second quarter, as demand in home appliances, computers and electronics goods resumed when the peak order season started towards the end of August and the SARS ended. During this period, DGCC continued to improve its production capacity and efficiency. An automated slitting machine was added in the first quarter to boost production capacity by 30%. DGCC was also awarded the status of New and High Technology Enterprise as recognition of its high productivity. The management targets to use DGCC as the base and continue to develop the best internal practices of process in terms of procedures, manuals and computer system and then apply such best practices to all its other future coil centre operations under a centralised enterprise standard of consistent quality, management, customer service and profitability.

Tianjin Coil Centre (“TJCC”) began first phase operation and commenced production in the second quarter, providing a wide range of steel processing services to customers including toll processing and merchandising. Total capital investments are expected to be amounted to about HK\$20 million. Since its commencement of operation in July 2003, TJCC has successfully developed strategic partnership with a renowned domestic home appliances manufacturer, which has production facilities in various provinces, as well as supplying to a large Korean electronics customer. It has also started to capitalise on cross-selling synergy by doing business with some of the customers of DGCC, which also have production bases in northern China. Although the turnover for the period under review only amounted to HK\$5.4 million, TJCC has successfully achieved the operational breakeven position in September 2003, just two months after commencement of operation.

The joint venture with Baosteel and Mitsui Company, **Baosteel Jingchang joint venture** in Nansha continued to grow satisfactorily. Turnover for the half year reached RMB257 million; already exceeding last year’s annual sales. Net profit reached RMB6.3 million as compared to RMB1.1 million last period. Dividend received from the joint venture amounted to RMB0.4 million during the period.

Enclosure Systems Manufacturing

The performance of **VJY enclosure systems manufacturing (“VJY”)** for the first half of 2003/04 is very impressive. Turnover increased 162% to HK\$51 million as compared to the same period in 2002/03. Gross margin increased one-third to 25% and gross profit grew 257%. Operating expenses were kept at 2002/03 levels and as a whole, VJY is able to report an operating profit before unallocated corporate expenses of HK\$6.5 million.

Unlike the DGCC or TJCC operations, VJY is a significantly more sophisticated (both in terms of machinery and employee skill sets) steel processing centre. The customers for VJY are a lot more demanding in their vetting process, and substantial resources were invested by the VSC Group in the initial start-up phase of VJY over the last couple of years. Now VJY is beginning to reap the harvest of these product and customer development efforts made in prior years. After building a substantial portfolio of approved product prototypes, VJY now becomes one of the key strategic suppliers of customised enclosure systems for leading PRC telecommunication equipment providers, like Huawei and Zhongxing. Sales revenue has been increased rapidly as a result of mass production of a variety of product prototypes after successful contract bidding. Moreover, VJY has made sound progress in business development for another renowned U.S. power supply equipment provider, Emerson as well as for automobile parts manufacturing for Isuzu’s Guangzhou plant and ATM machine casing production for a leading Japanese manufacturer. VJY has also developed standard enclosure systems supplying to a number of local IT/industrial equipment providers.

Operationally, VJY focused to strengthen its technical capability. Tailor-making the production flow for better efficiency, it started to produce high volume standardised products by moulds and dies, and high value sophisticated products by its advanced CNC fabrication production lines. Consequently VJY was almost being run at full capacity (on a two shifts basis) and enjoyed reducing marginal cost of production. Outsourcing of certain less demanding production processes was also implemented to further raise capacity and improve production flexibility.

Continuous cost reduction efforts through application of total cycle time methodology also helped VJY to increase gross margin, which resulted in improved incoming materials first pass yield (FPY), higher process FPY, higher metal sheet utilisation rate, reduced rejects, increased variety and value of vendor managed inventory, and reduced material procurement cost.

Plastics and Machinery

Sales revenue of **Plastics and Machinery Department** as a whole decreased 3% as compared with the same period in 2002/03. The Plastics division which mainly consists of selling engineering plastic resins to the VSC Group's industrial customers managed to keep gross margin at similar level as last year, with sales volume growth of 22%. Turnover has been steadily generated from demand of a wide range of resins of Samsung Ato Fina, Mitsubishi and Cheil as well as some of the popular products of GE Plastics. The division's efforts in expanding its customer base have resulted in growing number of new customers with sizeable orders. To tap the domestic market, the Shenzhen sales office of the division was in full operation during the period, providing consultation, merchandising, after-sales and technical services to the customers. For the Machinery division, commission from new machineries sold was significantly less because many customers held back on capital investment under unsatisfactory economic condition and the SARS outbreak. The Machinery division will enhance its revenue stream by promoting more maintenance programmes and also exploring the second hand machinery market. In addition, through improved internal resource sharing and communication, this department is able to also capitalise on cross selling with customers of the other business units within CAMP division, thus improving the VSC Group's yield per customer.

(2) CONSTRUCTION MATERIALS GROUP ("CMG")

The businesses of CMG operations of the VSC Group include distribution of steel and building products in both Hong Kong and Mainland China. Although the local economy and construction market continued to be very slow, with increasing contributions from Mainland China steel distribution, turnover of CMG for the period increased by 28% to HK\$1,308 million while operating profit before unallocated corporate expenses increased by 22% to HK\$33 million over the same period in 2002/03. The CMG operations contribute about 81% of the VSC Group's turnover and give rise to only about half of the VSC Group's operating profit.

Steel Distribution

The major business unit of the VSC Group's CMG operations is steel distribution, which embodies stockholding business of rebars, structural steel and engineering products in Hong Kong, construction steel distribution in Shanghai and Shenzhen together with distribution of steel products with its 19.2% investment in the iSteelAsia Group, distribution of mainly domestic steel products through 66.7% owned joint venture ("JV") — Shanghai Bao Shun Chang ("BSC"), and distribution of pre-painted galvanised steel (PPGI) in Beijing for its 10% owned JV with Beijing Shougang Group.

During the period, price of rebars in Hong Kong was volatile due to the war in the Middle East earlier this year. After war, price has been recovered and stabilised. Gross margin was improved. Turnover of the **Hong Kong steel stockholding department** slightly decreased by 8% as compared to the corresponding period of last year but the gross profit increased by 64%. With recovery of rebars price driven up by the Iraqi war and the global supply and demand factors, the department aims to maintain a stable profit contribution to the VSC Group. The department continued its efforts to reduce operation cost, streamline the operation efficiency, strengthen supply chain management/accounts receivable management and improve customer service quality.

Olympic Games to be held in Beijing in 2008 and World Expo to be held in Shanghai in 2010 will boost demand of construction materials for infrastructure and all the ancillary facilities. The VSC Group observed a much more favourable market potential in Mainland China for its CMG to thrive. With its new operation headquarters opened in Shanghai in May 2003, the VSC Group is devoted to develop construction steel distribution such as rebars, H-beams and steel plates in Shanghai and Shenzhen. A wholly foreign owned enterprise (WFOE) trading company has been formed in Shanghai to handle this domestic distribution business. Turnover from steel products distribution in Mainland China amounted to HK\$278 million for the period. The ongoing purchasing arrangement with the iSteelAsia Group also gave rise to sales of steel products of HK\$106 million. Such sizeable distribution volume has rendered the VSC Group enduring benefits in terms of lower price from bulk purchases and very flexible shipment delivery available from major steel mills globally.

During the period, the VSC Group successfully introduced a leading environmental friendly piling technology — “Silent Piling”, from GIKEN of Japan, into Shanghai, which provides solution to the problem of noise and vibration pollution resulted from traditional piling method for crowded city construction and redevelopments. In the second quarter, “Silent Piling” has been applied to the extension works of Shanghai Ruijin Hospital and a seminar conducted in the site was very well received. Such application not only introduced a new advanced form of construction technology to China but also raised people’s awareness on environmental protection and social responsibility.

The 66.7% owned JV, **BSC**, posted encouraging results during the year. Turnover increased by 34% to HK\$356 million. BSC is specialised in distribution of a wide range of steel products such as PPGI, hot-rolled and cold-rolled galvanised steel for major domestic steel mills including Baosteel and Bengang. A stable customer base of large manufacturers of electric appliances and air conditioners as well as structural steel distributors has been developed. Business has been growing strong recently on the back of robust economy in the eastern China region. Given the enormous market potential in China, prospect of BSC is expected to be promising.

VSC is satisfactory with the performance of its 19.2% investment in **iSteelAsia Holdings Limited (“iSA”)**. For the year ended 31st March 2003, turnover of iSA reached HK\$811 million and turnaround from a loss position to a net profit of HK\$6.6 million. First quarter result of iSA remained strong. Turnover reached HK\$398 million, an increase of 124% over the same period last year. Net profit amounted to HK\$0.6 million. The VSC Group will continue to monitor this investment proactively for better business synergy to both groups to solicit business, share resources and enhance business efficiency.

To capture the opportunities in Mainland China and the expected growth around the Beijing area leading up to the 2008 Beijing Olympic, the VSC Group invested in a joint venture of Beijing Shougang Group for production of PPGI, which is of widespread use in construction works in the PRC. Phase one of the project is to produce 170,000 tonnes PPGI annually and phase two is to expand the production lines to manufacture galvanised steel (GI) as well, which can be used as raw material for PPGI and other applications. Demand of PPGI in Beijing is expected to be strongly fuelled by construction of stadiums, hotels, and exhibition centres for the 2008 Beijing Olympic as well as the large automobile manufacturing facilities like Hyundai and Mercedes Benz expected to be built in Beijing. In view of such booming market, the VSC Group increased its stake in

the JV from 7.5% to 10% with additional investment of US\$1 million. This 10% owned JV is anticipated to commence production by the end of 2003. The VSC Group has obtained exclusive rights to distribute at least 50% of the production volume at a discounted cost from the JV and can also participate in supplying the raw material, GI to the JV.

Building Products

Building products department achieved turnaround for its operation and improved its performance by having an operating profit before unallocated corporate expenses of HK\$3.7 million in the period, despite a reduction in turnover of 31%. The drop in turnover was mainly due to completion of the two major projects of kitchen cabinets division in the last financial year. The VSC Group decided to scale down the sizeable kitchens installation business after consideration of the uncertainties in future prospects, risks inherent and low profitability with such projects. Small to individual projects will be focused due to higher profit margin and less human resource deployment. As the property market in Hong Kong was weak, depressing the demand in both price and quantity of sanitary wares for project sales, the sanitary division has taken further initiatives to return to profitability. The department further diversified its business into nearby cities such as Macau and Shanghai. Distribution channels have been set up to expand sales coverage of the Toto and Laufen sanitary wares in these cities. Gross margin improved as the department focused in high margin retail business. **Leisure Plus**, the retail outlet and showroom continued to improve its profit contribution with more businesses as SARS has raised the concern of more quality sanitary products for hygiene.

The VSC Group has obtained distribution right in Shanghai and a WOFE, **Leisure Plus Shanghai**, has been set up to handle wholesale and project sales of sanitary wares from Toto. In the period, Leisure Plus Shanghai earned revenue of approximately HK\$8.4 million. The department has proceeded smoothly in setting up distribution network, storage facilities and logistics arrangement in Shanghai.

OUTLOOK

The CAMP operations will remain as the growth engine of the VSC Group. The strong demand of our industrial products from the targeted industries in China, namely home appliances, computer, telecommunication and automobile has provided an impetus to the development of CAMP operations. Leveraging on the market knowledge of VJY, DGCC is planning to supply processed steel cut to required size to the enclosure manufacturing market following the trend of fusion of sheet metal fabrication and moulding in making enclosures. TJCC will focus on customer development in the Bohai area and aim to achieve breakeven for its first year of operation. The coil centre team is also exploring to extend the product range to include aluminium, stainless steel and silicon steel. Plan is underway to form more coil centres at strategic locations such as Shanghai and Guangzhou by either building "greenfield" plants or if opportunities arise, mergers and acquisitions ("M&A"). VJY will continue its improvement process to secure its position as the key strategic partners of its telecommunication as well as other automobile and banking customers. The plastics and machinery department will cautiously penetrate into the China domestic market, starting from Shenzhen and nearby regions and next the Greater Shanghai area.

As for the CMG operations, Hong Kong's construction industry is expected to remain stagnant, especially demand related to residential projects. However, large-scale infrastructure projects including new highways and railways will remain steady and continue to offer demand for the VSC Group's rebars, structural steel and engineering products. As at September 2003, the outstanding contracts-on-hand were worth about HK\$580 million. Moreover, the VSC Group is making inroads into neighbouring markets such as Macau and Shenzhen. Diversification into such cities with a strong presence of Hong Kong developers and increasing of the higher margin structural steel and engineering products will help compensate the shrinkage in rebars. On the other hand, market potential for

steel and building products distribution in Mainland China, such as Shanghai and Beijing, is huge. Leveraging on the existing set up in Hong Kong, it is expected that much synergy and economy of scale in terms of sourcing, logistics, supply chain management and marketing could be attained by extending into these new markets.

As stated earlier, the VSC Group will focus its future resources to develop the CAMP division, which is a relatively underdeveloped sector (as compared to the more industrialised western nations like the United States). The VSC Group's knowledge base and early inroad into this sector has given it an "early mover" advantage with relatively few competitors addressing a vast potential market. Moving forward the VSC Group will expand its CAMP division through a two-pronged approach — either through establishment of new facilities in strategic industrial regions in Mainland China for organic growth, or when opportunities arise, acquire existing operations that it can enhance through implementations of its enterprise system approach for M&A.

On the corporate front, as the VSC Group continues to develop the CAMP division, it is also apparent that the CAMP and CMG divisions operate on distinct business models with very different resources needed. The CAMP division is a longer-term processing operation that requires capital investments and a longer payback period driven by a much higher profit margin and a relatively underdeveloped market. While the CMG division is a distribution operation that yields good cashflow, quick returns but a much lower margin requiring high leverage and facing a more mature market. The management is aware that to ensure the successful execution of the VSC Group's strategy, further rationalisation of its resources will be required, and is thus proactively exploring various group structures and financial alternatives that will maximise shareholders' value.

In summary, amid a slight setback as caused by the SARS, the VSC Group manages to outperform from that of last year and maintain its momentum of strong growth. The management is optimistic that through cautious and prudent approach in exploring new markets and business opportunities, the VSC Group will be able to continue to capitalise on the niche that it has developed so far.

EMPLOYEE AND REMUNERATION POLICIES

As at 30th September 2003, the VSC Group employed 982 staff. 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 6-month period under review amounted to approximately HK\$27 million. During the 6-month period under review, 20,045,000 options have been offered and granted to its employees under the new share option scheme adopted since 12th November 2001.

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

As at 30th September 2003, the interests or short positions of the directors of the Company ("Directors") and chief executives of the Company in the shares of HK\$0.10 each in the capital of VSC ("Shares") and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange, were as follows:

i) Long positions in Shares, Warrants and options

Name	Type of interest	Attributable interest to the Director	Number of Shares and approximate % of shareholding		Number of Warrants (Note a)	Number of options (Note d)	Aggregate interest
Mr. Yao Cho Fai, Andrew	— Corporate interest held by Huge Top (Note b)	deemed interest (indirectly)	173,424,000	(55.04%)	—	—	173,424,000
	— Personal interest	100% (directly)	—	(—)	—	6,900,000	6,900,000
			<u>173,424,000</u>	<u>(55.04%)</u>	<u>—</u>	<u>6,900,000</u>	<u>180,324,000</u>
Ms. Yao Che Li, Miriam	— Corporate interest held by Huge Top (Note b)	deemed interest (indirectly)	173,424,000	(55.04%)	—	—	173,424,000
	— Personal interest	100% (directly)	2,000,000	(0.63%)	—	1,000,000	3,000,000
			<u>175,424,000</u>	<u>(55.67%)</u>	<u>—</u>	<u>1,000,000</u>	<u>176,424,000</u>
Mr. Dong Sai Ming, Fernando	— Personal interest	100% (directly)	791,811	(0.25%)	84,200	300,000	1,176,011
Mr. Ho Sai Hou, Johnson	— Personal interest	100% (directly)	1,249,894	(0.40%)	46,640	1,000,000	2,296,534
Dr. Shao You Bao	— Personal interest	100% (directly)	—	(—)	60,000	—	60,000
	— Family interest (Note c)	deemed interest (indirectly)	—	(—)	60,000	—	60,000
			<u>—</u>	<u>(—)</u>	<u>120,000</u>	<u>—</u>	<u>120,000</u>
Mr. Ting Woo Shou, Kenneth	— Personal interest	100% (directly)	2,402,000	(0.76%)	240,200	—	2,642,200

Notes:

- The warrants (“Warrants”) of VSC conferred rights to subscribe in cash for Shares, on the basis of a subscription price of HK\$1.18 per Share (subject to adjustment) during the period from 19th November 2001 to 18th November 2004 (both dates inclusive).
- As at 30th September 2003, Huge Top Industrial Ltd. (“Huge Top”) held 173,424,000 Shares. 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. (“Perfect Capital”) 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.
- Ms. Hsu Chi Kung, wife of Dr. Shao You Bao, held 60,000 Warrants.
- The interests of the directors in the share options of VSC are separately disclosed in the section headed “Share Option Scheme” below.

ii) Long positions in associated corporation — Huge Top

Name	Type of interest	Attributable interest to the Director	Number of shares and approximate % of shareholding	
Mr. Yao Cho Fai, Andrew <i>(Refer to Note b in i) above)</i>	— Corporate interest held by Perfect Capital	deemed interest (indirectly)	36	(42.86%)
	— Personal interest	100% (directly)	10	(11.90%)
			<u>46</u>	<u>(54.76%)</u>
Ms. Yao Che Li, Miriam	— Personal interest	100% (directly)	<u>5</u>	<u>(5.95%)</u>
Mr. Dong Sai Ming, Fernando	— Personal interest	100% (directly)	<u>5</u>	<u>(5.95%)</u>

Save as disclosed above, as at 30th September 2003, none of the Directors, chief executives of the Company and their associates had any personal, family, corporate or other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange.

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

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

Other than interests disclosed in the section headed "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, as at 30th September 2003, according to the register of interests kept by the Company under section 336 of the SFO, the following entity has interests or short positions in the shares of the Company which fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

Name	Number of Warrants	Number of issued Shares	Approximate % of shareholding
Huge Top	—	173,424,000	55.04%

Save as disclosed above, as at 30th September 2003, the directors are not aware of any other persons who have interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

SHARE OPTION SCHEME

A new share option scheme has been adopted by VSC since 12th November 2001 (the "New Share Option Scheme") to replace a share option scheme which had been adopted on 22nd January 1994 (the "Old Share Option Scheme") to comply with the current statutory requirements. VSC may grant options to the participants as set out in the New Share Option Scheme. The terms of the New Share Option Scheme are contained in a circular sent to shareholders of VSC in October 2001.

The Old Share Option Scheme was terminated on 12th November 2001. Upon termination of the Old Share Option Scheme, no further options will be granted thereunder but in all other respects, the provisions of the Old Share Option Scheme shall remain in force and all options granted prior to such termination shall continue to be valid and exercisable in accordance therewith. The employee share options outstanding under the Old Share Option Scheme and the New Share Option Scheme during the period were as follows:

Old Share Option Scheme

Name or category of participant	Date of grant	Exercise period	Exercise price per Share	Number of share options			End of period	Weighted average closing price of the Shares immediately before the date of exercise
				Beginning of period	Exercised during the period	Lapsed during the period		
				'000	'000	'000	'000	
<i>Directors:—</i>								
Mr. Yao Cho Fai, Andrew	17th December 1994	15th January 1997 to 15th January 2004	HK\$1.1344	2,000	—	—	2,000	} N/A
	18th January 1996	15th January 1997 to 15th January 2004	HK\$1.2528	2,000	—	—	2,000	
	18th March 1996	1st May 1998 to 22nd January 2004	HK\$1.3840	2,900	—	—	2,900	
Ms. Yao Che Li, Miriam	17th December 1994	15th January 1997 to 15th January 2004	HK\$1.1344	2,000	(2,000)	—	—	HK\$1.42
Mr. Ho Sai Hou, Johnson	17th December 1994	15th January 1997 to 15th January 2004	HK\$1.1344	500	(500)	—	—	} HK\$1.45
	18th March 1996	1st May 1998 to 22nd January 2004	HK\$1.3840	400	(400)	—	—	
Sub-total				9,800	(2,900)	—	6,900	
<i>Employees:—</i>								
In aggregate	17th December 1994	15th January 1997 to 15th January 2004	HK\$1.1344	2,000	—	—	2,000	} N/A
In aggregate	18th January 1996	15th January 1997 to 15th January 2004	HK\$1.2528	2,000	—	—	2,000	
In aggregate	10th January 2000	1st February 2002 to 22nd January 2004	HK\$1.6880	900	—	(300)	600	
Sub-total				4,900	—	(300)	4,600	
Total of Old Share Option Scheme				14,700	(2,900)	(300)	11,500	

New Share Option Scheme

Name or category of participant	Date of grant	Exercise period	Exercise price per Share	Closing price before grant (Note 2)	Number of share options				End of period '000	Weighted average closing price of the Shares immediately before the date of exercise
					Beginning of period '000	Granted during the period '000	Exercised during the period '000	Lapsed during the period '000		
<i>Directors:—</i>										
Mr. Yao Cho Li, Miriam	19th September 2003	19th September 2005 to 18th September 2013	HK\$1.418	HK\$1.42	—	1,000	—	—	1,000	N/A
Mr. Dong Sai Ming, Fernando	19th September 2003	19th September 2005 to 18th September 2013	HK\$1.418	HK\$1.42	—	300	—	—	300	N/A
Mr. Ho Sai Hou, Johnson	19th September 2003	19th September 2005 to 18th September 2013	HK\$1.418	HK\$1.42	—	1,000	—	—	1,000	N/A
Sub-total					—	2,300	—	—	2,300	
<i>Employees:—</i>										
In aggregate	2nd May 2003	2nd May 2003 to 1st May 2013	HK\$0.98	HK\$0.95	—	10,150	(900)	—	9,250	} HK\$1.59
In aggregate	7th May 2003	7th May 2005 to 6th May 2013 (Note 3)	HK\$0.97	HK\$0.98	—	7,595	—	(100)	7,495	
Sub-total					—	17,745	(900)	(100)	16,745	
Total of New Share Option Scheme					—	20,045	(900)	(100)	19,045	

Notes:

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

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

Under the present capital structure of the Company, the exercise of the share options under the Old Share Option Scheme and the New Share Option Scheme during the period had resulted in the issue of 3,800,000 additional ordinary shares of the Company and additional share capital of HK\$380,000 and share premium of HK\$3,891,600 (before issuance expenses).

The Directors consider that it is not appropriate to state the value of the share options granted pursuant to the New Share Option Scheme during the period to the employees. The Directors believe that any statement regarding the value of the options will not be meaningful to the shareholders, taking into account the diversified nature of the businesses of the VSC Group (i.e., ranging from (i) China Advanced Materials Processing including manufacturing of industrial products such as rolled steel flat products and enclosure systems and trading of industrial products such as engineering plastic resins and injection moulding machines, and (ii) Construction Materials Group including trading and stockholding of construction materials such as steel products, sanitary ware and kitchen cabinets and the installation work of kitchen cabinets) and the fact that comparable data required for calculation of the value of the options and the weighing of each of such data may not be representative of the diversified nature of the businesses of the VSC Group.

CODE OF BEST PRACTICE

None of the directors of VSC is aware of any information which would indicate that the VSC Group is not, or was not, in compliance with the Code of Best Practice (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange at any time during the six months ended 30th September 2003, 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. In the opinion of the Directors, this meets the objective of the Code.

AUDIT COMMITTEE

In compliance with the requirements set by the Stock Exchange, 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 condensed interim accounts for the six months ended 30th September 2003 of VSC now reported on have been reviewed by the Audit Committee.

PURCHASE, SALE OR REDEMPTION OF SHARES AND WARRANTS

During the period, the Company repurchased certain of its own Shares through the Stock Exchange. The aggregate price paid for the repurchases amounted to approximately HK\$968,000. All of these shares had been cancelled. Details of the repurchases are as follows:

Month of repurchase	Number of Shares repurchased	Price per Share		Aggregate price paid (including expenses) HK\$
		Highest HK\$	Lowest HK\$	
April 2003	1,016,000	0.95	0.93	968,283

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the period.

On behalf of the Board of Directors,
Yao Cho Fai, Andrew
Chairman and Chief Executive Officer

Hong Kong, 30th October 2003

<http://www.vschk.com>

<http://www.isteelasia.com>