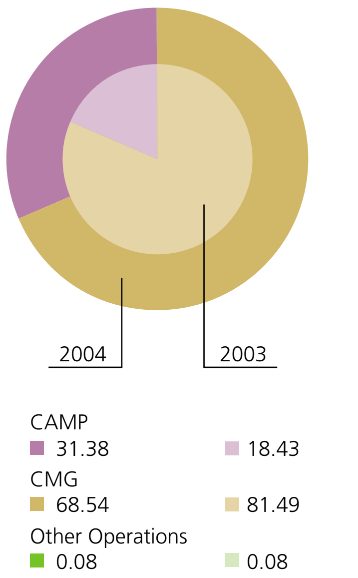
VSC万顺昌

INTERIM REPORT 2004/05

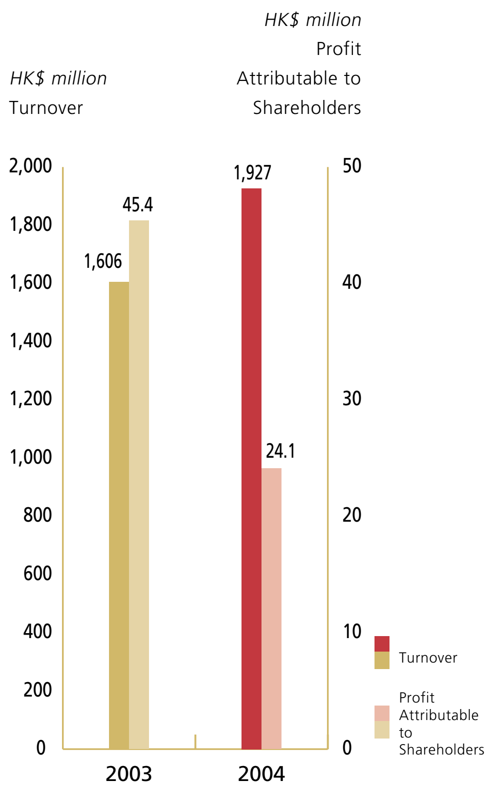
VAN SHUNG CHONG HOLDINGS LIMITED

Van Shung Chong Holdings Limited
Financial Cockpit Chart

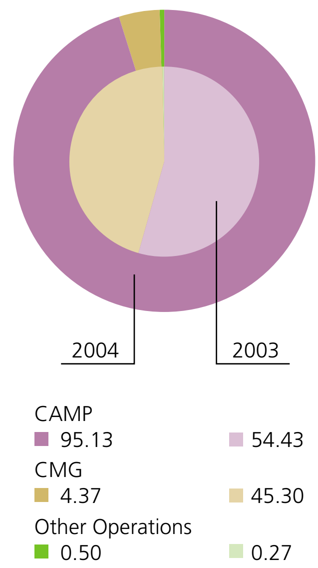
Turnover by Business Segment
for the 6 months ended 30th September
%



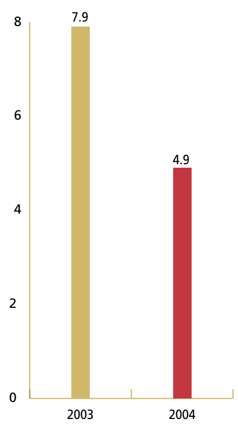
Turnover & Profit Attributable to Shareholders
for the 6 months ended 30th September



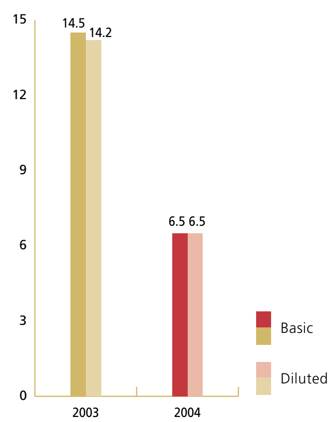
Segment Results by Business Segment
for the 6 months ended 30th September
%



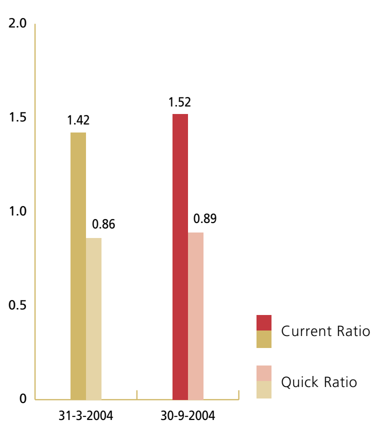
Interest Cover
for the 6 months ended
30th September
multiple



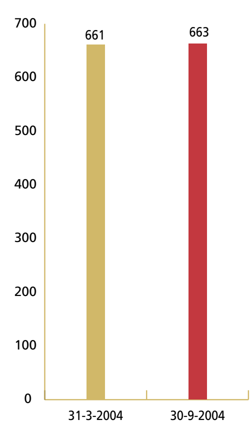
Earnings Per Share
for the 6 months ended
30th September
HK cents



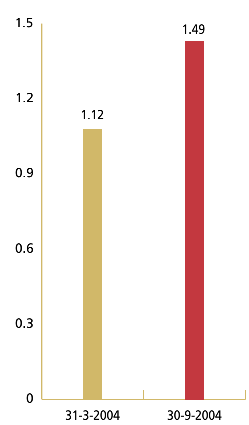
Liquidity Ratios
as at
multiple



Shareholders' Equity
as at
HK$ million



Gearing Ratio
as at
multiple



UNAUDITED INTERIM RESULTS

The board of Directors (the "Board") of Van Shung Chong Holdings Limited ("VSC") hereby reports the unaudited condensed accounts of VSC and its subsidiaries (the "VSC Group") as at and for the six months ended 30th September 2004, together with comparative figures, as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30th September 2004

		Six months ended 30th September	
		2004	2003
	Note	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Turnover	*2*	**1,927,422**	1,605,677
Cost of sales		**(1,816,471)**	(1,488,922)
Gross profit		**110,951**	116,755
Other revenue		**5,809**	6,981
Selling and distribution expenses		**(13,476)**	(9,424)
General and administrative expenses		**(66,853)**	(53,490)
Gain on disposal of an investment property		**—**	1,686
Operating profit	*3*	**36,431**	62,508
Finance costs		**(7,377)**	(7,956)
Profit before taxation		**29,054**	54,552
Taxation	*4*	**(2,149)**	(7,128)
Profit after taxation but before minority interests		**26,905**	47,424
Minority interests		**(2,811)**	(2,073)
Profit attributable to shareholders		**24,094**	45,351
Dividends	*5*	**—**	9,831
Earnings per share	*6*		
— Basic		**6.5 HK cents**	14.5 HK cents
— Diluted		**6.5 HK cents**	14.2 HK cents

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th September 2004

	Note	**As at 30th September 2004 *HK$'000* (Unaudited)**	As at 31st March 2004 *HK$'000* (Audited)
Non-current assets			
Fixed assets	*7*	**152,622**	159,366
Investment properties		**33,948**	36,448
Investment in associates		**2**	2
Long-term investments	*8*	**48,513**	60,012
Goodwill		**6,455**	8,290
Deferred tax assets	*13*	**3,136**	447
Total non-current assets		**244,676**	264,565
Current assets			
Inventories		**779,972**	695,941
Due from customers on installation contract work		**13,606**	11,450
Prepayments, deposits and other receivables		**138,621**	88,231
Accounts and bills receivable	*9*	**830,472**	836,357
Loans receivable		**6,891**	6,891
Pledged bank deposit		**7,981**	8,374
Cash and bank deposits		**101,703**	109,465
Total current assets		**1,879,246**	1,756,709
Current liabilities			
Short-term borrowings	*10*	**903,890**	798,610
Accounts and bills payable	*11*	**248,718**	350,629
Due to customers on installation contract work		**—**	157
Receipts in advance		**33,565**	34,168
Accrued liabilities and other payables		**42,481**	46,157
Taxation payable		**11,131**	9,503
Total current liabilities		**1,239,785**	1,239,224
Net current assets		**639,461**	517,485
Total assets less current liabilities		**884,137**	782,050
Non-current liabilities			
Long-term bank loan, non-current portion	*12*	**194,444**	97,222
Deferred tax liabilities	*13*	**135**	104
Total non-current liabilities		**194,579**	97,326
Net assets		**689,558**	684,724
Represented by:			
Share capital	*14*	**36,798**	36,778
Reserves		**626,303**	623,780
Shareholders' equity		**663,101**	660,558
Minority interests		**26,457**	24,166
		689,558	684,724

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th September 2004 (Unaudited)

	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Statutory and other reserves HK$'000	Capital reserve HK$'000	Investment revaluation reserve HK$'000	Cumulative foreign currency translation adjustments HK$'000	Retained profit HK$'000	Proposed dividends HK$'000	Total HK$'000
As at 1st April 2004	**36,778**	**312,712**	**77,203**	**5,532**	**58,355**	**(6,097)**	**(2,752)**	**168,529**	**10,298**	**660,558**
Profit attributable to shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**24,094**	**–**	**24,094**
Issuance of shares upon exercise of warrants	**20**	**207**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**227**
Change in fair value of long-term investments	**–**	**–**	**–**	**–**	**–**	**(11,499)**	**–**	**–**	**–**	**(11,499)**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(5)**	**(10,298)**	**(10,303)**
Translation adjustments	**–**	**–**	**–**	**–**	**–**	**–**	**24**	**–**	**–**	**24**
As at 30th September 2004	**36,798**	**312,919**	**77,203**	**5,532**	**58,355**	**(17,596)**	**(2,728)**	**192,618**	**–**	**663,101**

For the six months ended 30th September 2003 (Unaudited)

	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Statutory and other reserves HK$'000	Capital reserve HK$'000	Investment revaluation reserve HK$'000	Cumulative foreign currency translation adjustments HK$'000	Retained profit HK$'000	Proposed dividends 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 share 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

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th September 2004

	Six months ended 30th September	
	2004	2003
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Net cash outflow from operating activities	**(197,936)**	(107,429)
Net cash outflow from investing activities	**(2,148)**	(17,508)
Net cash inflow from financing activities	**191,905**	126,049
(Decrease)/Increase in cash and cash equivalents	**(8,179)**	1,112
Cash and cash equivalents at 1st April	**117,839**	69,631
Effect of foreign exchange rate changes	**24**	21
Cash and cash equivalents at 30th September	**109,684**	70,764
Analysis of cash and cash equivalents:		
— Cash and bank deposits	**109,684**	70,764

NOTES TO THE CONDENSED CONSOLIDATED INTERIM ACCOUNTS

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

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

These condensed accounts should be read in conjunction with the annual accounts of the VSC Group for the year ended 31st March 2004. 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 2004.

2. SEGMENT INFORMATION

The VSC Group operates predominantly in Hong Kong and Mainland China and in two business segments — (i) China Advanced Materials Processing ("CAMP") including manufacturing of industrial products such as rolled flat steel products and enclosure systems, and trading of industrial products such as engineering plastic resins and injection moulding machines, and (ii) Construction Materials Group ("CMG") including trading and stockholding of construction materials such as steel products, sanitary ware and kitchen cabinets and the installation work of kitchen cabinets.

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

	China Advanced Materials Processing *HK$'000*	Construction Materials Group *HK$'000*	Other Operations *HK$'000*	Total *HK$'000*
For the six months ended 30th September 2004				
Turnover — Sales to external customers	**604,897**	**1,321,109**	**1,416**	**1,927,422**
Segment results	**53,666**	**2,467**	**278**	**56,411**
Other revenue	**1,444**	**134**	**4,231**	**5,809**
Unallocated corporate expenses				**(25,789)**
Operating profit				**36,431**
Finance costs				**(7,377)**
Taxation				**(2,149)**
Minority interests				**(2,811)**
Profit attributable to shareholders				**24,094**
For the six months ended 30th September 2003				
Turnover — Sales to external customers	295,956	1,308,416	1,305	1,605,677
Segment results	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 costs				(7,956)
Taxation				(7,128)
Minority interests				(2,073)
Profit attributable to shareholders				45,351

3. **OPERATING PROFIT**

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

	Six months ended 30th September	
	2004	2003
	HK$'000	*HK$'000*
After charging:		
Depreciation of fixed assets	**11,261**	8,373
Amortisation of goodwill	**1,835**	925
Staff costs	**36,938**	27,124
Loss on disposal of fixed assets	**137**	34
After crediting:		
Gain on disposal of an investment property	**—**	1,686

4. **TAXATION**

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) 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	
	2004	2003
	HK$'000	*HK$'000*
Current taxation:		
— Hong Kong profits tax	**3,711**	6,054
— Overseas taxation	**1,238**	1,533
— Over provisions in prior years	**(142)**	—
Deferred taxation relating to the origination and reversal of temporary differences	**(2,658)**	(459)
Taxation charge	**2,149**	7,128

5. **DIVIDENDS**

The directors did not recommend the payment of an interim dividend for the six months ended 30th September 2004 (six months ended 30th September 2003: interim dividend of HK3.1 cents per ordinary share).

6. **EARNINGS PER SHARE**

The calculations of basic and diluted earnings per share for the six months ended 30th September 2004 are based on the VSC Group's profit attributable to shareholders of approximately HK$24,094,000 (six months ended 30th September 2003: HK$45,351,000).

The calculation of basic earnings per share for the six months ended 30th September 2004 was based on the weighted average number of approximately 367,913,000 (six months ended 30th September 2003: 312,020,000) ordinary shares in issue during the period. The calculation of diluted earnings per share for six months ended 30th September 2004 is based on approximately 372,081,000 (six months ended 30th September 2003: 319,456,000) ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average number of approximately 4,168,000 (six months ended 30th September 2003: 7,436,000) ordinary shares deemed to be issued at no consideration if all outstanding warrants and share options had been exercised.

7. **FIXED ASSETS**

Net book values of fixed assets consisted of:

	As at 30th September 2004 ***HK$'000***	As at 31st March 2004 *HK$'000*
Land and buildings	**83,709**	85,782
Construction-in-progress	**206**	—
Furniture and equipment	**22,568**	24,495
Machinery	**42,844**	45,775
Motor vehicles	**3,295**	3,314
	152,622	159,366

8. **LONG-TERM INVESTMENTS**

Long-term investments consisted of:

	As at 30th September 2004 ***HK$'000***	As at 31st March 2004 *HK$'000*
Investment in shares listed in Hong Kong		
— At cost	**42,438**	42,438
— Change in fair value	**(32,204)**	(20,705)
	10,234	21,733
Unlisted investments		
— At cost	**38,376**	38,376
— Accumulated impairment loss	**(97)**	(97)
	38,279	38,279
	48,513	60,012

As at 30th September 2004, the investment in shares listed in Hong Kong represents approximately 18.9% (as at 31st March 2004: 18.9%) equity interests in iSteelAsia Holdings Limited, a company incorporated in Bermuda and whose shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). This investment was stated in the balance sheet at its quoted market value as at 30th September 2004.

9. **ACCOUNTS AND BILLS RECEIVABLE**

A major portion of the VSC Group's turnover is transacted on an open account basis, with credit periods generally ranging from 30 to 90 days.

Ageing analysis of accounts and bills receivable was as follows:

	As at 30th September 2004 ***HK$'000***	As at 31st March 2004 *HK$'000*
0 to 60 days	**527,180**	489,809
61 to 120 days	**224,430**	120,418
121 to 180 days	**38,136**	41,907
181 to 365 days	**37,836**	135,342
Over 365 days	**16,306**	61,656
	843,888	849,132
Less: Provision for bad and doubtful receivables	**(13,416)**	(12,775)
	830,472	836,357

Included in accounts and bills receivable as at 30th September 2004 were retentions from installation contract work of approximately HK$5,183,000 (as at 31st March 2004: HK$5,355,000), which were not receivable until satisfaction of the conditions specified in the underlying contracts.

10. SHORT-TERM BORROWINGS

Short-term borrowings consisted of:

	As at 30th September 2004 ***HK$'000***	As at 31st March 2004 *HK$'000*
Bank loans		
— Trust receipts bank loans	**700,931**	661,159
— Short-term bank loans	**135,703**	65,205
— Long-term bank loan, current portion *(see Note 12)*	**55,556**	27,778
	892,190	754,142
Other loans		
— A minority shareholder of a subsidiary	**11,700**	11,700
— Others	**—**	32,768
	903,890	798,610

Trust receipts bank loans are secured by inventories arranged under such loans. Other loans are unsecured and non-interest bearing.

11. ACCOUNTS AND BILLS PAYABLE

Ageing analysis of accounts and bills payable was as follows:

	As at 30th September 2004 ***HK$'000***	As at 31st March 2004 *HK$'000*
0 to 60 days	**214,029**	312,090
61 to 120 days	**19,318**	22,712
121 to 180 days	**10,460**	11,342
181 to 365 days	**2,998**	2,986
Over 365 days	**1,913**	1,499
	248,718	350,629

Included in accounts and bills payable as at 30th September 2004 was an amount due to a minority shareholder of a subsidiary of approximately HK$39,437,000 (as at 31st March 2004: HK$30,902,000) arising from trading activities, which is unsecured, repayable according to normal credit terms and bore interest at commercial lending rates.

12. LONG-TERM BANK LOAN

Long-term bank loan consisted of:

	As at 30th September 2004 ***HK$'000***	As at 31st March 2004 *HK$'000*
Amounts payable		
— within one year	**55,556**	27,778
— in the second year	**55,556**	55,556
— in the third to fifth year	**138,888**	41,666
	250,000	125,000
Less: Amount due within one year included under current liabilities *(see Note 10)*	**(55,556)**	(27,778)
	194,444	97,222

13. DEFERRED TAXATION

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2003:17.5%).

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

	As at 30th September 2004 *HK$'000*	As at 31st March 2004 *HK$'000*
Deferred tax liabilities		
At the beginning of the period/year	**104**	250
Deferred taxation charged/(credited) to profit and loss account	**31**	(146)
At the end of the period/year	**135**	104
Provided for in respect of accelerated depreciation allowances	**135**	104
Deferred tax assets		
At the beginning of the period/year	**(447)**	—
Deferred taxation credited to profit and loss account	**(2,689)**	(447)
At the end of the period/year	**(3,136)**	(447)
Provided for in respect of accelerated depreciation allowances	**143**	741
Provided for in respect of cumulative tax losses	**(2,455)**	—
Provided for in respect of other timing differences	**(824)**	(1,188)
	(3,136)	(447)

14. SHARE CAPITAL

	As at 30th September 2004		As at 31st March 2004	
	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
Issued and fully paid (ordinary shares of HK$0.10 each):				
Beginning of period/year	**367,784**	**36,778**	312,257	31,226
Issue of shares through placement	**—**	**—**	33,000	3,300
Issue of shares upon exercise of warrants *(i)*	**194**	**20**	8,443	844
Issue of shares upon exercise of share options	**—**	**—**	15,100	1,510
Repurchase of shares	**—**	**—**	(1,016)	(102)
End of period/year	**367,978**	**36,798**	367,784	36,778

Note:

(i) During the six months ended 30th September 2004, approximately 194,000 warrants were exercised to subscribe for approximately 194,000 shares (year ended 31st March 2004: 8,443,000 shares) of VSC at a consideration of approximately HK$227,000 (year ended 31st March 2004: HK$9,962,000).

15. RELATED PARTY TRANSACTIONS

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

	Six months ended 30th September	
	2004	2003
	HK$'000	*HK$'000*
Metal Logistics Company Limited *(i)*		
— sales made by the VSC Group	**264,341**	105,591
— commission for procurement services paid/payable by the VSC Group	**1,360**	1,079
— administrative service fees earned by the VSC Group	**90**	90
— interest earned by the VSC Group	**1,655**	2,881
iSteelAsia (Hong Kong) Limited *(i)*		
— administrative services fee earned by the VSC Group	**90**	90
— rental earned by the VSC Group	**81**	117

Note:

(i) Metal Logistics Company Limited and iSteelAsia (Hong Kong) Limited are wholly owned by iSteelAsia Holdings Limited, a company in which the VSC Group has a 18.9% equity interest as at 30th September 2004 (as at 31st March 2004: 18.9%).

b. The amount due from a related company arising from transactions described in Note 15.a was included in accounts and bills receivable. Details of the balance were as follows:

	As at 30th September 2004	As at 31st March 2004
	HK$'000	*HK$'000*
Metal Logistics Company Limited *(i)*	**208,660**	205,611

Note:

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

16. SUBSEQUENT EVENTS

On 7th October 2004, the VSC Group entered into a provisional sale and purchase agreement to dispose of a residential property at the consideration of HK$36,800,000. The carrying value of the residential property as at 30th September 2004 was approximately HK$25,925,000 and was included in fixed assets. Gain from disposal of the residential property, after deducting all relevant expenses, was approximately HK$10,375,000.

The warrants of VSC expired on 18th November 2004. Approximately 9,265,000 warrants were exercised since issuance to subscribe for approximately 9,265,000 shares of VSC at the consideration of approximately HK$10,933,000. Approximately 26,233,000 warrants were not exercised and were cancelled upon expiration.

RESULTS

Turnover for the six months ended 30th September 2004 was approximately HK$1,927 million, an increase of 20% compared with the same period in 2003. The increase in turnover was mainly derived from the CAMP operations, which recorded an encouraging growth of 104%, while the turnover of the CMG operations remained at similar level as compared to the same period of last year. Overall gross margin, however, decreased by 21%. The Hong Kong steel rebars stockholding business of CMG was significantly affected by some long term steel sales contracts committed in previous years at a price substantially lower than the prevailing market price, resulting in a very material adverse hit to the profitability.

Overall selling and distribution expenses increased by 43% as the CAMP operations carry a higher cost in selling and distribution such as transportation expenses for goods delivery. The increase of selling and distribution expenses of CAMP was 89% and in line with the increase in its turnover while those of CMG operations increased by 7% only. Overall general and administrative expenses also increased by 25%. The newly acquired Guangzhou Coil Centre in March 2004 accounted for approximately HK$5.7 million increase in the expenses since no such expenses were included in the first 6-month period of last year. Other major reasons for the increase included the increased staff costs due to the continuous expansion in businesses and enhanced incentive schemes for sales motivation, as well as the operating costs for the expanding headquarters in Shanghai, PRC.

As a result of the above, profit attributable to shareholders was approximately HK$24.1 million, a decrease of 47% as compared to the six months ended 30th September 2003.

Basic earnings per ordinary share decreased by 55% to HK6.5 cents due to the decrease in profit attributable to shareholders. No interim dividend per ordinary share was declared for the period (2003 — HK3.1 cents per ordinary share representing dividend payout of 22%). Although the VSC Group's customary practice is to pay around one third of its annual dividend as interim dividend, the Board, after carefully considering the expected capital requirements to further develop its business (especially in the VSC Group's growth engine — CAMP operations which are mainly capital investment) and the continuous volatility in the global steel market, has decided to withhold the interim dividend and reserve for the final dividend on a prudent basis. The Board will continue its policy to balance the goal to achieve reasonable yield return for its shareholders while maximising the VSC Group's shareholders' value in the medium to longer term. Subject to the eventual performance of the VSC Group for the financial year 2004/05 coupled with the then macro environments, the Board will seriously consider to recommend final dividend upon the end of this financial year.

LIQUIDITY, FINANCIAL RESOURCES AND GEARING

The VSC Group has centralised funding management for all its operations at the group level. This policy focuses on managing financial risks, including interest rate and foreign exchange risks, while achieving better control of treasury operations and lower average cost of funds. Total interest bearing borrowings for the VSC Group, as at 30th September 2004 amounted to HK$1.1 billion of which 82% was repayable in one year, 5% was repayable between one and two years and 13% was repayable in three years. As compared to 31st March 2004, both current ratio and quick ratio improved to the level of 1.52 and 0.89, respectively. Gearing ratio (interest bearing short-term borrowings and long-term bank loan after netting off of cash and bank deposits divided by shareholders' equity) increased from 1.12 to 1.49 as a result of increase in bank borrowings. As a steel distributor and processor in expansion, the VSC Group requires a substantial amount of bank lines to finance its working capital need for inventory and accounts receivable. The VSC Group's trade financing remained primarily supported by its HK$1.7

billion bank trade facilities while the HK$0.25 billion syndicated bank loans obtained in October 2003 were more geared towards supporting the CAMP businesses. As in prior years, these lines were either secured by the VSC Group's inventories held under short-term trust receipts bank loan arrangement and/or corporate guarantees provided by VSC. All of the above borrowings in Hong Kong are subject to floating interest rates. Interest costs of the import bank loans were levied on inter-banks borrowing rates plus very competitive margin.

As the VSC Group establishes more presences and operations in Mainland China, the need for Renmenbi ("RMB") financing also intensifies. RMB loans and bill exchange facilities have been obtained from domestic and foreign banks in the amount of RMB105 million. With the expansion in the PRC, the VSC Group will continue to obtain financing when the need arises. Interest costs of RMB banking facilities were based on standard loan rates set by the People's Bank of China adjusted with competitive margin.

CHARGES ON ASSETS

As at 30th September 2004, the VSC Group had certain charges on assets which included (i) bank deposit of approximately HK$8 million pledged for RMB bank facilities; (ii) inventories of approximately HK$16 million pledged for a RMB bank loan; (iii) land and buildings of approximately HK$9 million pledged for a RMB bank loan; and (iv) inventories held under short-term trust receipts bank loan arrangements in Hong Kong.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The VSC Group's businesses were primarily transacted in HK dollar, US dollar, RMB and Euro dollar. As the exchange rate between HK dollars and the US dollars is fixed, together with the minimal fluctuation in exchange rate between HK dollars and RMB, the VSC Group believes its exposure to exchange rate risk is not material. The VSC Group will continue to match RMB payments with RMB receipts to minimise exchange exposure. Transaction values involving Euro dollar were relatively insignificant. Forward foreign currency contracts were entered into when suitable opportunities arise and when considered appropriate to hedge against major foreign currency exposures. As at 30th September 2004, the total outstanding derivative instruments of the VSC Group represented forward foreign currency contracts, which were used to hedge principal repayment of future US dollars debts under letter of credit and Euro payments in the amount of approximately HK$301 million. It is the VSC Group's policy not to enter into any derivative transaction for investment purpose as such activity is deemed to be too speculative and a deviation from the VSC Group's core competence.

CONTINGENT LIABILITIES

As at 30th September 2004, the VSC Group had contingent liabilities in the form of guarantees of approximately HK$17 million.

COMMITMENTS

There was no material change in commitments since 31st March 2004.

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 segment results of CAMP increased by 104% to HK$605 million, and 35% to HK$54 million, respectively. As a reflection of the VSC Group's execution of its core strategy as laid out before, CAMP's contribution to the VSC Group has and will become more and more significant, and for the period under review, almost accounted for 95% of the VSC Group's overall segment results due to the exceptional decline of profitability in CMG. Turnover of CAMP represented 31% of the VSC Group's total turnover as compared to 18% in the same period in 2003.

Coil Centre Operations

The coil centre operations consist of three coil centres in Dongguan, Tianjin and Guangzhou managed and run by the VSC Group and a 14% investment in a coil centre joint venture in Nansha. These coil centres purchases a variety of steel coils from international and PRC local suppliers to serve re-export customers as well as domestic PRC customers. All in all, the coil centre operations' focus on end user customers with demands from their manufacturing operations has proven to be a right market positioning of CAMP.

The first half-year result of **Dongguan Coil Centre ("DGCC")** is very impressive. With the purchase of an automated slitting machine in last year, sales quantity surged 46% and turnover of DGCC for the 6-month period increased by 71% to HK$252 million. Despite the price of high-end rolled flat steel products remained at high level due to global inequality in demand and supply forces throughout the period, DGCC was able to successfully retain its profit margin with many of its high-volume customers. Capitalising on its developed ability to purchase a variety of steel from multiple sources, which allowed DGCC to have steel supply with different pricing patterns and degree of market responsiveness; DGCC was able to better manage the different degrees of price elasticity of its customers and could promote alternative substitutes for various applications, thus capturing profit even under the turbulent steel market.

Tianjin Coil Centre ("TJCC") started operation in July 2003, targeting both re-export customers and PRC domestic markets in Bohai area and northern China. It has reached breakeven point in last year and recorded a profit for the period under review, showing great progress within a relatively short start-up. Sales for the first 6 months in 2004/05 increased to HK$58 million, already exceeding the annual turnover of HK$38 million in 2003/04. TJCC has developed sound business relationship with certain renowned home appliance manufacturers, directly processing for and selling steel to famous Korean and Chinese brand names. It has also established local purchasing channels and gained continuous support from local steel mills, which further supported its domestic sales business.

The VSC Group acquired 70% stake in **Guangzhou Coil Centre ("GZCC")** in March 2004. Shinsho Corporation, a core trading company of Kobe Steel Group in Japan, holds the remaining 30%. Sales quantity for the first 6 months increased 74% as compared to the same period in last year, due to devoted efforts made by both shareholders. Turnover reached HK$97 million, showing great improvement in asset turnover hence capacity utilisation. Building upon the experience and resources of the other coil centres of the VSC Group, GZCC in 6 months' time had enlarged its active customer base by 58%, widened product offerings from mostly Japanese materials to also including Korean and Chinese steel products, and automated most of its operations. As a result of the continuous cost rationalisation process and increase in volume, both unit selling expenses and production expenses reduced by 25.6% and 18.9%, respectively.

The **Baosteel Jingchang joint venture** in Nansha continued to grow satisfactorily. Turnover for the half year reached RMB317 million, an increase of 23% from last period. Net profit increased by 19% and reached RMB7.5 million. Dividend received from the joint venture amounted to RMB1.3 million during the period.

Enclosure Systems Manufacturing (Van Jia Yuen "VJY")

Turnover of **VJY** for the period under review amounted to HK$72 million, an increase of 41% as compared to same period last year. It continued serving the major domestic telecommunication equipment providers, Huawei and Zhongxing (ZTE), and the U.S. power supply equipment provider, Emerson. It also became the sole supplier of fabricated metal parts to Guangzhou Isuzu Bus Co. Ltd. a joint venture of the Guangzhou Automobile Group Co., Ltd. and Japanese automobile manufacturer Isuzu Motors Ltd. Because of its high degree of deep processing and hence high value-added to its customers, VJY was able to yield an even better gross margin than that of coil centres in average. Since the acquisition of GZCC, who serves both domestic and re-export markets, VJY is able to purchase local steel, one of the key raw materials for its enclosure systems, from this sister company at competitive prices. This new souring channel had facilitated the supply chain management of VJY in improving its competitiveness.

Plastics and Machinery

Sales quantity of the **plastics and machinery department** increased 25% whereas turnover for the period increased 37% due to increase in crude oil price. Gross margin had shown slight increment to become double-digit as compared with last year. The department continued to purchase a wide range of engineering plastic resins from multiple sources such as GE Plastics, Cheil, Samsung Total and Mitsubishi, and had successfully maintained a profitable product mix, which balances the core and mass volume engineering plastic resins with highly profitable alloy plastic products. It had developed local sales teams in Shenzhen and Guangzhou, and the pace of new customers development was steady. A new PRC trading company has currently been registered and is expected to start operation by early 2005, which will strengthen the department's ability to serve customers who are selling to PRC customers.

(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, primarily to developers and contractors for construction works. As a result of the persistent increase in steel prices, especially in the long products area (such as rebars), the CMG operations encountered a very serious setback this year. Turnover of CMG for the period increased by 1% to HK$1,321 million while segment results decreased by 93% to HK$2 million over the same period in 2003. The CMG operations account for about 69% of the VSC Group's turnover.

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, steel distribution in Mainland China together with distribution of steel products with its 18.9% investment in the iSteelAsia Group, and distribution of mainly domestic steel products through 66.7% owned joint venture, Shanghai Bao Shun Chang ("BSC").

For the period under review, steel stockholding business in Hong Kong suffered from an unprecedented adverse operating environment and its performance had hit the lowest trough of this cyclical business over the VSC Group's past 30 years history. Turnover of the **Hong Kong steel stockholding department** decreased by 9% as compared to the corresponding period of last year and the department suffered from gross loss for the first time in its history. Such exceptionally poor results stem from a combination of factors. On the sales side, the several extremely low price sales contracts entered into during the year 2000 whose deliveries had still remained outstanding in this year had dramatically pulled down the average selling prices of deliveries during the period. Construction activities in Hong Kong were still stagnant as affected by the just recovered property market, causing the delivered tonnages remaining at a declining trend without apparent improvement. Strong competition in the industry had also exerted heavy pressure on the profit margin in concluding new sales contracts during the period. On the other hand, the VSC Group in sourcing its steel rebars globally faced an extremely volatile steel purchase price fluctuation. Price of rebars increased significantly due to the war in the Middle East since last financial year. The overheated economy, particularly in real estate, in Mainland China before implementation of austerity measures by the Central Government in mid 2004 also fuelled the price rise of construction steel such as rebars to record high level in early 2004. But ironically, Hong Kong new construction projects continued to be slow, thus adding to the pressure for the VSC Group, whose market in this sector is predominantly Hong Kong focus. The sharp rise in steel price within a very short time period was never witnessed before in the steel industry in the past decade. This had imposed tremendous pressure on the VSC Group to make purchase decisions to fulfill its fixed low price local sales commitment under a persistently increasing worldwide purchase price at the time. To maintain its long-term relationship with customers and limit the exposure to the mismatch between the sales price and purchase cost from further upward price, the department concluded several unprofitable purchases in covering its open position in the outstanding sales contracts to ensure uninterrupted delivery of steel rebars to the customers. This turned out to cost the department a significant decline in gross profit.

In hindsight, such unsatisfactory results had demonstrated the historically unchallenged vulnerability of the stockholding business model in Hong Kong with long-term fixed price sales contracts arrangement under a very persistently turbulent purchase price environment. The department had carefully reviewed such risk scenario and considered extra premium and some change in practice need to be sought for a higher return justification from the business. Extensive communication was carried out within the industry as the steel price volatility in recent few years is not an isolated issue affecting the VSC Group, instead it has been a persistent macro issue causing major concerns for the whole industry tending to some overhaul for past industry practices. As endorsed by the customers, the department had adjusted its operating strategies to have both the suppliers and customers sharing in the pricing risk and decided not to enter long-term fixed price sales contract over 2 years with price adjustment for delivery beyond 2 years. Premium will also be charged for special size delivery. With the target to maintain stable profit contribution to the VSC Group, the department is devoted to maintain satisfied customers through healthy competition, reduce operation cost by supply chain management and improve operation efficiency. Furthermore, most of those outstanding low price sales contracts are expected to be completed within this financial year. The management is confident that supported by the VSC Group's financial strength and coupled with sound customers and suppliers relationship, barring unforeseen circumstances, the Hong Kong steel distribution business after these efforts is expected to restore to its normal profitability next financial year.

As in Mainland China, the Central Government had introduced a series of macro-entrenchment policies to control some overheated industries. The steel industry and the construction industry were among the targeted industries. Domestic steel price dropped drastically and sales of construction steel were stagnant in the China market. Despite such adverse conditions, turnover from steel products distribution in Mainland China, mainly through our own network in Shanghai and Shenzhen and through the ongoing purchasing arrangement with the iSteelAsia Group, rose slightly by 4% to HK$401 million and gross profit increased by 67.6%. This reflected the success of the VSC Group in focusing on a niche market of distributing selected high quality steel products in several major cities. Turnover of the 66.7% owned joint venture, **BSC**, also increased by 4% to HK$370 million while operating profit decreased by 43% to HK$5 million.

iSteelAsia Holdings Limited ("iSA") also faced the adverse market condition in Mainland China. For the six months ended 30th September 2004, turnover of iSA dropped 38% from HK$813 million to HK$508 million. Although iSA reported a loss of HK$1.5 million for the six months ended 30th September 2004, VSC was delighted that iSA had been turnaround from the loss position and achieved a profit of HK$1 million for the most recent three months ended 30th September 2004. VSC believed that iSA had adjusted to the macro-entrenchment policies well and will continue to capitalise on the opportunities arising and explore its niche market position under these policies. 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.

Building Products

Building products department finished the six-month period with an increase in turnover of 42% and an 11% increase in gross profit. After years of consolidation and restructuring, the department had been remarkable in making encouraging progress. As stated in our previous announcement, the kitchen cabinets division had been restructured to abandon large long-term, high risk and low return projects. The project sales division had managed to raise sales revenue of its sanitary wares of TOTO, Laufen and Hansgrohe and Rover tiles by an increase of 92%. The division currently has contracts-on-hand worth around HK$17 million. **Leisure Plus**, the retail outlet and showroom in Wanchai had successfully built up a high-end image in superior quality sanitary products and kitchen cabinets, and had strengthened its sales network by the alliance with other TOTO wholesalers. It recorded over 100% growth in sales revenue and 53% increase in gross profit. To cope with the blooming construction market in Shanghai, Leisure Plus had been set up in Shanghai in last financial year to handle wholesale and project sales of TOTO products. **Leisure Plus Shanghai** achieved turnaround for its operation for the period.

PROSPECTS

CAMP has been and will continue to be the growth engine for the VSC Group. With the smooth integration of the newly acquired GZCC, all business units of the CAMP operations continue to grow and improve in sales, asset turnover and capacity utilisation. Their strategies of serving high-growth industries and developing stable customer groups with identifiable brand names have to a large extent been an appeal to steel mills, which favour constant and foreseeable demands from end-users. This enables the purchasing arm of the VSC Group to enlarge its purchasing volume in a stable and price-competitive manner, which in term enables CAMP to expand its business. Both DGCC & GZCC are planning to purchase new machineries to further raise capacity and efficiency. TJCC is also building a new dormitory to cope with its rapid expansion. Overall, the VSC Group is exploring opportunity for CAMP to form strategic alliance with some steel mills to jointly develop new market segments and customers. The VSC Group is also exploring to further extend its steel and metal processing capability of VJY and embark into other high-potential industry and application.

CMG, despite the setbacks and market fluctuation encountered, will continue to cautiously develop and finetune its business models. Currently, CMG's sales contracts-on-hand in Hong Kong total about HK$711 million extending to year 2006. In the future, learning from its experience, the VSC Group will focus on strategic restructuring and move away from very long-term delivery, thus high risk projects so as to avoid substantial fluctuation in its profitability. Amid many market uncertainties, the global economy is still expected to do well and the real estate markets in Hong Kong and Macau will perform well in the coming years, with an end of deflation and improvement in unemployment rate. The PRC economy is affected by the implementation of austerity measures in the short term for a temporary adjustment. The VSC Group believes soft landing is forthcoming soon thus facilitating the rapid and sustainable growth of the PRC economy in the future. All these signs should converge into favourable impetus to the business operations of the VSC Group.

EMPLOYEE AND REMUNERATION POLICIES

As at 30th September 2004, the VSC Group employed 1,116 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$37 million. During the 6-month period under review, no options have been offered and/or 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 2004, the interests and short positions of the directors of VSC ("Directors") and chief executives of VSC in the shares of HK$0.10 each in the capital of VSC ("Shares"), underlying shares and debentures of VSC or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which (a) were required to be notified to VSC and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or (c) were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") to be notified to VSC and the Stock Exchange, were as follows:

(i) Long positions in Shares, Warrants and options of VSC

Name	Nature of interest	Attributable interest to the Director	Number of Shares	Approximate percentage	Number of Warrants *(Note a)*	Number of options *(Note c)*	Aggregate interest
Mr. Andrew Cho Fai Yao	– Corporate interest held by Huge Top *(Note b)*	deemed interest (indirectly)	173,424,000	47.13%	–	–	173,424,000
	– Personal interest	100% (directly)	7,100,000	1.93%	–	–	7,100,000
			180,524,000	49.06%	–	–	180,524,000
Mr. Fernando Sai Ming Dong	– Personal interest	100% (directly)	342,000	0.09%	14,200	300,000	656,200
Mr. Johnson Sai Hou Ho	– Personal interest	100% (directly)	849,894	0.23%	–	1,000,000	1,849,894
Mr. Kenneth Woo Shou Ting	– Personal interest	100% (directly)	2,402,000	0.65%	240,200	–	2,642,200
Mr. Harold Richard Kahler	– Personal interest	100% (directly)	66,000	0.02%	–	–	66,000

Notes:

a. 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).

b. As at 30th September 2004, Huge Top Industrial Ltd. ("Huge Top") holds 173,424,000 Shares. Mr. Andrew Cho Fai Yao is one of the two directors of Huge Top. Mr. Andrew Cho Fai Yao directly holds approximately 11.90% and indirectly through Perfect Capital International Corp. ("Perfect Capital") owns approximately 42.86% 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. Mr. Andrew Cho Fai Yao owns the entire issued share capital of Perfect Capital.

c. 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	Nature of interest	Attributable interest to the Director	Number of shares	Approximate percentage
Mr. Andrew Cho Fai Yao *(Refer to Note b in (i) above)*	— Corporate interest held by Perfect Capital	deemed interest (indirectly)	36	42.86%
	— Personal interest	100% (directly)	10	11.90%
			46	54.76%
Mr. Fernando Sai Ming Dong	— Personal interest	100% (directly)	5	5.95%

For the six months ended 30th September 2004, VSC had complied the Model Code adopted on 31st March 2004 as the required standard against which Directors must measure their conduct regarding transactions in securities of VSC according to Appendix 10.1 of the Rules Governing the Listing of Securities on the Stock Exchange ("the Listing Rules").

Save as disclosed above, as at 30th September 2004, none of the Directors, chief executives of VSC and their associates had any personal, family, corporate or other interests or short positions in the shares, underlying shares or debentures of VSC or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to VSC and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (include interests and short positions which they are taken or deemed to have under such provisions of SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code, to be notified to VSC and the Stock Exchange.

Apart from the foregoing, at no time during the period was VSC 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 VSC 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 VSC nor exercised any such right.

PERSONS WHO HAVE INTERESTS OR SHORT POSITIONS WHICH ARE DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO

Other than interests disclosed in the section headed "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, as at 30th September 2004, according to the register of interests kept by VSC under section 336 of the SFO, the following entity has interests or short positions in the shares and underlying Shares of VSC which fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the VSC Group together with particulars of any options in respect of such capital:

Name	Nature of interest	Number of Shares	Approximate percentage	Number of Share options	Aggregate interest
Huge Top Industrial Ltd.	Directly	173,424,000	47.13%	—	173,424,000
Ms. Miriam Che Li Yao	Corporate	173,424,000 *(Note)*	47.13%	—	173,424,000
	Personal	2,000,000	0.54%	1,000,000	3,000,000
		175,424,000	47.67%	1,000,000	176,424,000

Note: As at 30th September 2004, Huge Top held 173,424,000 Shares. Ms. Miriam Che Li Yao is one of the two directors of Huge Top and therefore is deemed to be interested in these Shares through Huge Top.

Save as disclosed above, as at 30th September 2004, the Directors are not aware of any other persons (other than Directors or chief executives of VSC) who have interests or short positions in the shares, underlying shares or debentures of VSC or any associated corporations (within the meaning of Part XV of the SFO) which would fall to be disclosed to VSC under Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the VSC Group together with particulars of any options in respect of such capital.

SHARE OPTION SCHEME

A share option scheme has been adopted by VSC since 12th November 2001 (the "Share Option Scheme") and VSC may grant options to the participants as set out in the Share Option Scheme. The terms of the Share Option Scheme are contained in a circular sent to shareholders of VSC in October 2001. The share options outstanding under the Share Option Scheme during the period were as follows:

Name or category of participant	Date of grant	Exercise period	Exercise price per Share	Number of share options: Beginning of period '000	Lapsed during the period '000	End of period '000
Directors:–						
Mr. Fernando Sai Ming Dong	19th September 2003	19th September 2005 to 18th September 2013	HK$1.418	300	–	300
Mr. Johnson Sai Hou Ho	19th September 2003	19th September 2005 to 18th September 2013	HK$1.418	1,000	–	1,000
Sub-total				1,300	–	1,300
Employees:–						
In aggregate	2nd May 2003	2nd May 2003 to 1st May 2013	HK$0.98	250	–	250
In aggregate	7th May 2003	7th May 2005 to 6th May 2013 *(Note 2)*	HK$0.97	6,445	(200)	6,245
In aggregate	19th September 2003	19th September 2005 to 18th September 2013	HK$1.418	1,000	–	1,000
Sub-total				7,695	(200)	7,495
Others:–						
In aggregate	2nd May 2003	2nd May 2003 to 1st May 2013	HK$0.98	7,000	–	7,000
Sub-total				7,000	–	7,000
Total of Share Option Scheme				15,995	(200)	15,795

Notes:

1. For the Share Option Scheme, the vesting period of the share options is from the date of the grant until the commencement of the exercise period.

2. 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:—

   (i) During the period starting from 7th May 2005 to 6th May 2006, the option may be exercised up to 30% of such Shares.

   (ii) 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.

   (iii) 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.

CODE OF BEST PRACTICE

VSC has complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules throughout the period, except that the non-executive Directors are not appointed for specific terms. However, the non-executive Directors are subject to retirement by rotation and re-election at 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

The Audit Committee has been set up since December 1998 and now consists of four non-executive Directors with Mr. Kenneth Woo Shou Ting as Chairman and Dr. Chow Yei Ching , Dr. Shao You Bao and Mr. Kenny King Ching Tam as members (of whom three, including the chairman of the Audit Committee, are independent non-executive Directors) with one of the members of the Audit Committee is an independent non-executive Director with appropriate professional accounting expertise as required under Rule 3.10 of the Listing Rules. Scope of the work of the Audit Committee is defined and approved by the Board in relation to various internal control and audit issues with a view to further improving our corporate governance. These unaudited condensed interim accounts for the six months ended 30th September 2004 of VSC now reported on have been reviewed by the Audit Committee.

SPECIFIC PERFORMANCE OBLIGATIONS ON CONTROLLING SHAREHOLDER

Reference was made to the HK$250 million term loan facility agreement dated 27th October 2003 (the "Facility Agreement") with a final maturity in October 2006. The Facility Agreement contains a requirement that Mr. Andrew Cho Fai Yao ("Mr. Yao") and his direct related family members (i.e. Mr. Yao, Ms. Miriam Che Li Yao and Mrs. Yao Lin Shiu Mei, their spouses and their children) shall continue to remain as the single largest shareholder of VSC with at least 30% shareholding of the issued share capital of VSC and Mr. Yao shall maintain the position of Chairman and management control of the VSC Group. The abovementioned obligations have been complied with.

PURCHASE, SALE OF REDEMPTION OF SHARES AND WARRANTS

Neither VSC nor any of its subsidiaries has purchased, sold or redeemed any of VSC's listed securities during the six months ended 30th September 2004.

On behalf of the Board,
Andrew Cho Fai Yao
Chairman

Hong Kong, 22nd December 2004

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

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