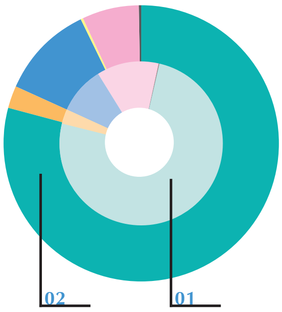
Van Shung Chong Holdings Limited Financial Cockpit Chart

Turnover by Product/Operation

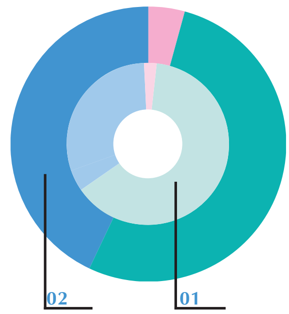
for the years ended 31st March,
%



	02	01
Steel	79.13	75.24
Building products	2.62	2.91
Coil centre	10.99	9.33
Enclosure systems	0.26	N/A
Plastics and machinery	6.69	12.27
Investment holding	0.31	0.25

Gross Profit by Business Segment

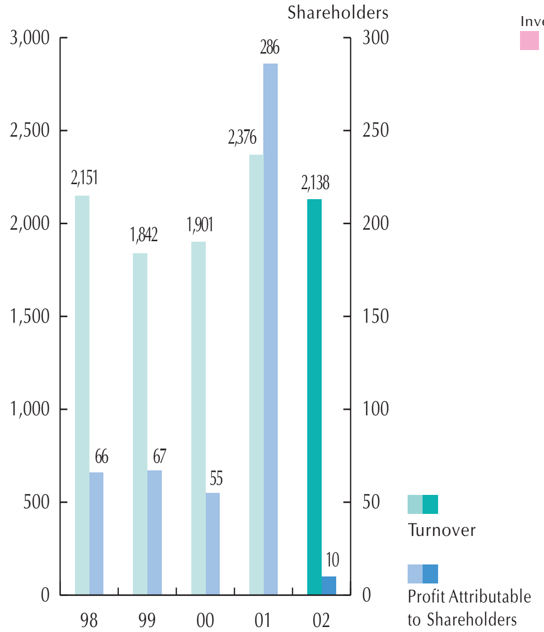
for the years ended 31st March,
%



	02	01
Construction materials	52.79	63.62
Industrial products	42.96	33.87
Investment holding	4.25	2.51

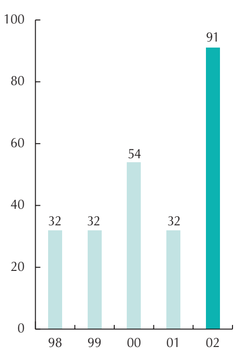
Turnover & Profit Attributable to Shareholders

for the years ended 31st March,



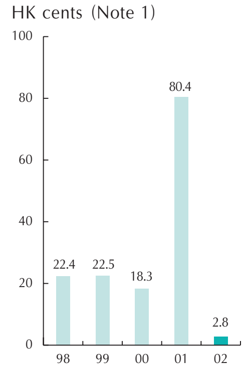
Cash Dividend Payout

for the years ended 31st March,
% (Note 1)



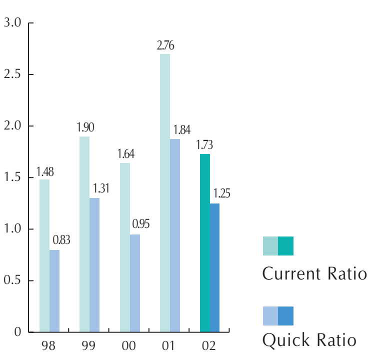
Basic Earnings Per Share

for the years ended 31st March,
HK cents (Note 1)



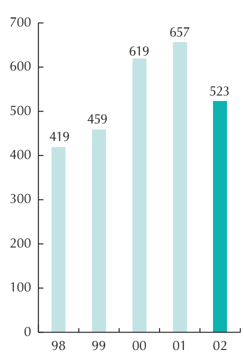
Liquidity Ratios

as at 31st March,
(Note 1)



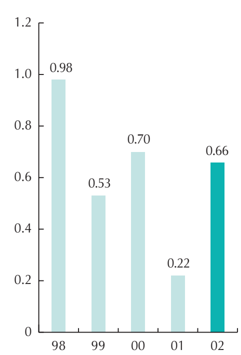
Shareholders' Equity

as at 31st March,
HK$ million (Note 1)



Gearing Ratio

as at 31st March,
(Note 1)



Note:
1. Figures in prior years have been restated as set out in Note 2.b to the accompanying financial statements.

THE FOLLOWING DISCUSSION AND ANALYSIS SHOULD BE READ IN CONJUNCTION WITH CONSOLIDATED FINANCIAL STATEMENTS AND NOTES THERETO INCLUDED IN PAGES 62 TO 108.

(Note: The financial years ended 31st March, 2001 and 2002 are referred to herein as FY2001 and FY2002, respectively. Certain comparative figures in FY2001 have been reclassified to conform with the presentation in FY2002.)

(1) CONSOLIDATED INCOME STATEMENT

		FY2002											
Ref		Construction materials			Industrial products				Investment holding				
		Steel HK$'000	Building products HK$'000	Subtotal HK$'000	Coil centre HK$'000	Enclosure systems HK$'000	Plastics and machinery HK$'000	Subtotal HK$'000	Investment properties HK$'000	Finance business HK$'000	Subtotal HK$'000	Unallocated corporate expenses HK$'000	Grand total HK$'000
	Turnover												
	- Continuing operations	1,679,085	55,996	1,735,081	234,899	5,609	142,988	383,496	6,535	-	6,535	-	2,125,112
	- Discontinued operations	12,733	-	12,733	-	-	-	-	-	-	-	-	12,733
		1,691,818	55,996	1,747,814	234,899	5,609	142,988	383,496	6,535	-	6,535	-	2,137,845
	Cost of sales			(1,666,645)				(317,430)			-	-	(1,984,075)
	Gross profit			81,169				66,066			6,535	-	153,770
	Selling and distribution expenses			(6,743)				(6,970)			-	(85)	(13,798)
	General and administrative expenses			(45,536)				(20,856)			(20,014)	(43,025)	(129,431)
	Amortisation of goodwill			-				(924)			-	-	(924)
1.1	Profit (Loss) from operations			28,890				37,316			(13,479)	(43,110)	9,617
1.2	Gain on investments												6,391
	Gain on investment properties												1,160
1.3	Interest income												2,720
1.3	Interest expense												(7,908)
	Share of loss of associates												(88)
	Profit before taxation and minority interests												11,892
	Taxation and minority interests												(1,782)
	Profit attributable to shareholders												10,110
1.4	Cash dividends per share												2.6 cents
1.5	Earnings per share												
	- Basic												2.8 cents
	- Diluted												2.8 cents

FY2001

Ref		Construction materials			Industrial products				Investment holding				
		Steel HK$'000	Building products HK$'000	Subtotal HK$'000	Coil centre HK$'000	Enclosure systems HK$'000	Plastics and machinery HK$'000	Subtotal HK$'000	Investment properties HK$'000	Finance business HK$'000	Subtotal HK$'000	Unallocated corporate expenses HK$'000	Grand total HK$'000
	Turnover												
	– Continuing operations	1,751,901	69,109	1,821,010	221,664	–	291,629	513,293	4,096	1,888	5,984	–	2,340,287
	– Discontinued operations	36,164	–	36,164	–	–	–	–	–	–	–	–	36,164
		1,788,065	69,109	1,857,174	221,664	–	291,629	513,293	4,096	1,888	5,984	–	2,376,451
	Cost of sales			(1,705,405)				(432,492)			–	–	(2,137,897)
	Gross profit			151,769				80,801			5,984	–	238,554
	Selling and distribution expenses			(9,551)				(10,247)			–	(119)	(19,917)
	General and administrative expenses			(81,861)				(26,346)			(21,240)	(47,358)	(176,805)
	Amortisation of goodwill			(24,877)				–			–	–	(24,877)
1.1	Profit (Loss) from operations			35,480				44,208			(15,256)	(47,477)	16,955
	Gain on investments												323,850
	Loss on investment properties												(33,630)
1.3	Interest income												4,778
1.3	Interest expense												(11,732)
	Share of profit of associates												89
	Profit before taxation and minority interests												300,310
	Taxation and minority interests												(14,474)
	Profit attributable to shareholders												285,836
1.4	Cash dividends per share												26 cents
1.5	Earnings per share												
	– Basic												80.4 cents
	– Diluted												79.5 cents

1.1 Profit (Loss) from operations

FY2002 had been a tough year for the VSC Group. All operational departments except Dongguan coil centre recorded downfall in both turnover and profit from operations. The new department, enclosure systems manufacturing in Shenzhen had only a few months' contribution to turnover and had not achieved breakeven in its first year of operation. As a result, total turnover decreased by around 10% while profit from operations decreased by about 43%.

a) *Construction materials*

Results of construction materials group comprised the continuing operations of steel department and building products department, as well as the discontinued operations of processed rebars with cut and bend services. As compared to FY2001, turnover decreased slightly by about 6% and profit from operations decreased by about 19%. The significant decrease of general and administrative expenses was mainly due to the high cost associated with the discontinued operations incurred in FY2001.

Despite the drop in size of rebars market in Hong Kong by over 33% and the fierce competition in driving down the market price by over 8%, the rebars stockholding business in Hong Kong finished the year with only about 13% decrease in turnover. This is mainly attributable to the successful sales and marketing effort devoted during the year, including key account management and customer/project database. The piling stockholding business, however, suffered from a significant decline in market price and recorded a decrease of about 40% in turnover. As most of the high-value inventory had been disposed of and new sources of piling in nearby countries had been identified, the operating results of piling stockholding business are foreseen to improve in the coming year. Reduction of turnover in rebars and piling stockholding businesses in Hong Kong was partially compensated by increase in sales of our Mainland China joint venture, Shanghai Bao Shun Chang International Trading Co., Ltd. ("Shanghai Bao Shun Chang"). Therefore, the turnover in FY2002 for steel slightly decreased by approximately 5%.

Operationally, the steel department continued its process improvement programmes, which are aiming at improving logistics efficiency and further reducing total costs of ownership of holding inventory (which include purchase costs, incoming logistics costs, scrap, rework and write-off costs for sub-standard materials). With these objectives in mind, the average direct pier-to-site delivery rate of rebars had been improved by about 6%. Inventory level of rebars was further reduced by over 30%. As a result of these improvements, costs of godown operation, transportation and handling costs, as well as inventory carrying costs had all been reduced significantly. Average total costs of ownership of holding inventory in turn decreased by around 26%. This is reflected in the decrease of selling and distribution expenses.

FY2002 was the worst year for the building products department. It is the first time that the department experienced decline in turnover by about 19% and suffered a loss from operations of approximately HK$7 million. Both the sanitary ware division and the kitchen cabinets division recorded drop in turnover and changed from profit to loss. The sanitary ware division finished the year with a drop in turnover of about 40%, mainly because of the suspension of Home Ownership Scheme and the loss of distributorship of Twyford and Eljer sanitary ware products during the year. The division had undergone tremendous efforts to restructure its personnel and widen its products and is now proudly representing the prestigious Toto, Laufen and Hansgrohe sanitary ware products. The division aimed at reverting to the upward trend in turnover and restoring profitability in the coming years.

The kitchen cabinets division, for the second consecutive year, recorded a drop in turnover. Because of the delay in construction schedule of two major projects, namely Sorrento, Kowloon Station and Coastal Skyline, Tung Chung Station, turnover decreased by about 7%. The division remained optimistic about its future performance. With contracts-on-hand of more than 5,900 kitchens and the newly set up retail outlet with showroom, Leisure Plus, turnover of kitchen cabinets looks very optimistic in the coming year.

The tiles division became another stable source of income for the building products department in FY2002, contributing about 8% to the total turnover of the department. During the year, the division successfully secured the distributorship of Rover, a leading Hsin bonded marble from Italy. Turnover is expected to increase five to six folds in next year.

b) *Industrial products*

Results of industrial products group comprised the continuing operations of Dongguan coil centre, the new enclosure systems manufacturing as well as plastics and machinery department. As compared to FY2001, turnover decreased by about 25% and profit from operations decreased at a lesser extent of about 16%.

Dongguan coil centre had performed well with about 6% increase in turnover and a remarkable increase of about 80% in profit from operations. Sales tonnage increased almost 30% which was the result of timely expansion of the production capacity and increase in productivity. Production capacity now reaches 6,500 tonnes per month and machine utilisation increased by more than 22%.

Efforts were also spent on reducing the stock level and total costs of ownership of holding inventory. A supply chain management team was formed and had been working with our suppliers to improve the on-time delivery and shorten the delivery lead-time. Results were encouraging with stock level decreased by about 60% and total costs of ownership of holding inventory decreased by about 12%.

In November 2001, the new enclosure systems manufacturing plant was operational. Sales were satisfactory with turnover for a few months amounting to approximately HK$6 million for FY2002. However, the plant had yet to reach its breakeven point. With the fast growing telecommunication industry in Mainland China, it is expected the business for enclosure systems manufacturing plant will grow rapidly and can provide profit contribution in the coming years.

Traditionally, the plastics division relied heavily on one supplier, GE Plastics. As such, the division's turnover was seriously hampered after the formal distributorship with GE Plastics was terminated in mid 2001. Although the division had secured other reputable brands of plastic resins, the sluggish consumer products market after the September 11 tragedy had posed difficulty in expanding the business. The division had responded quickly by setting up a sales outlet in Shunde in January 2002. Besides developing new source of income, the division had also undergone vigorous cost saving measures. Stock level was cut by about 39%, thus reducing the storage costs by about 42%. General and administrative expenses also reduced by about 27%. The division finished the extremely difficult year with turnover dropped by about 52% and profit from operations dropped by about 72%.

Machinery division, on the other hand, finished the year better than expected. Turnover increased by about 18% while profit from operations increased by about 71%.

c) *Investment holding*

Results of investment holding group comprised the continuing operations of investment properties and the finance business. As compared to FY2001, turnover increased mildly by about 9% and loss from operations decreased by about 12%.

Rental income increased by about 60% as most of our investment properties were rented out throughout the year while some of the properties were vacant last year. In FY2002, no interest income was recognised from the finance business despite the receipt of several repayments of principal during the year. Management had reviewed the collectibility of the loans receivable and had prudently made provision of doubtful loans receivable of approximately HK$16 million in FY2002.

1.2 Gain on investments

Gain on investments represented write-back of provision of outstanding guarantee return receivables for the GFTZ fuel company. After continuous efforts, repayment schedules for the remaining balance of guarantee receivables had been fixed and the outstanding amount is expected to be fully recovered in coming years.

1.3 Interest income/expense

Net financing charges were reduced by about 25% to approximately HK$5 million. The decrease in gross interest expense by about 33% was mainly the result of savings from the reduction of our stock level and general reduction of market interest rate as well as better offer from our banks. Interest cover (profit from operations divided by net financing charges) was, however, reduced to about 1.85 (FY2001 - 2.44) which is a consequence of the decrease in profit from operations.

1.4 Dividends per share

Total cash dividends per share decreased from 26.0 cents to 2.6 cents. Cash dividend payout (total cash dividends paid/proposed divided by profit attributable to shareholders x 100%) increased from about 32% to around 91%. In light of the availability of sufficient bank financing at current low interest cost, the VSC Group decided to adopt a high dividend payout policy to give a satisfactory return to its shareholders.

1.5 Earnings per share

Both basic and diluted earnings per share decreased by about 96% to 2.8 cents. The decrease was in line with the reduction percentage in profit attributable to shareholders since there was no significant movement in issued share capital during the year.

(2) CONSOLIDATED BALANCE SHEETS

Ref		As at 31st March, 2002 HK$'000	2002 HK$'000	2001 HK$'000	2001 HK$'000	%Change
2.1	Property, plant and equipment		**123,248**		86,296	+42.8
	Investment properties		**32,500**		31,340	+3.7
	Investment in associates		**2**		90	-97.8
2.2	Long-term investments		**32,561**		87,431	-62.8
	Goodwill		**6,474**		–	N/A
	Current assets:		**791,401**		716,257	+10.5
2.3	– inventories	**217,775**		238,855		-8.8
2.4	– gross amount due from customers for installation contract work	**1,891**		916		+106.4
	– prepayments, deposits and other receivables	**30,424**		27,534		+10.5
	– advances to suppliers	**11,020**		14,416		-23.6
2.5	– accounts receivable	**470,894**		355,878		+32.3
2.6	– loans receivable	**10,843**		28,409		-61.8
2.7	– pledged bank deposits	**3,021**		5,492		-45.0
	– cash and bank deposits	**45,533**		44,757		+1.7
	Current liabilities:		**(458,053)**		(259,665)	+76.4
	– short-term bank borrowings	**(262,982)**		(106,770)		+146.3
	– accounts and bills payable	**(152,571)**		(109,345)		+39.5
2.8	Total liabilities for inventory purchases	**(415,553)**		(216,115)		+92.3
	– receipts in advance	**(6,075)**		(8,915)		-31.9
	– accrued liabilities and other payables	**(33,980)**		(31,493)		+7.9
	– taxation payable	**(2,445)**		(3,142)		-22.2
	Deferred taxation		**(250)**		(2,070)	-87.9
	Minority interests		**(4,573)**		(2,921)	+56.6
	Net assets		**523,310**		656,758	-20.3
2.9	Capital and reserves					
	Share capital		**35,498**		35,529	-0.1
	Reserves		**359,311**		414,425	-13.3
	Retained profit		**125,661**		125,088	+0.5
	Proposed dividend		**2,840**		81,716	-96.5
	Shareholders' equity		**523,310**		656,758	-20.3

2.1 Property, plant and equipment

The increase of net book value of property, plant and equipment of approximately 43% was mainly attributable to the fixed assets additions in relation to (i) establishment of the enclosure systems manufacturing plant with machinery and equipment amounting to approximately HK$25 million (ii) addition of machinery and change in factory layout of Dongguan coil centre amounting to approximately HK$5 million and (iii) addition of computer software and hardware, including an ERP system for improvement in IT and process control amounting to approximately HK$15 million.

2.2 Long-term investments

Due to the weak market sentiment of the Internet-related securities, the investments in iSteelAsia.com Limited and iMerchants Limited had been restated from approximately HK$82 million to around HK$27 million with reference to the market share price at year end. The decrease of about HK$55 million was debited to the asset revaluation reserve to offset against surplus on asset revaluation recognised previously. The remaining balance of long-term investments of approximately HK$6 million represents mainly the investment costs in Baosteel Jingchang.

2.3 Inventories

With the continuous effort in carrying out the TCT methodology, both supply chain and sales fulfillment processes were improved. Our inventory of steel rebars in tonnage had been further reduced by approximately 30% as a result of improved forecast of customers' demand. Overall inventories in dollar terms decreased by about 9% to approximately HK$218 million. Overall inventory turnover (average inventories divided by cost of sales x 365 days) was also reduced to around 42 days (FY2001 - 57 days).

2.4 Gross amount due from customers for installation contract work

The amount represented the outstanding contract sum due from customers for kitchen cabinets installation contract works completed less any progress billings received and receivable as at year end and any foreseeable losses. Two major contracts were still in progress at year end, namely Sorrento, Kowloon Station and Coastal Skyline, Tung Chung Station. As a result, gross amount due from customers for kitchen cabinets installation contract work increased by about 106%.

2.5 Accounts receivable

Accounts receivable ("AR"), net of provision for doubtful debts, was increased by around 32%. The increase in AR mainly arose from the increase in purchases made by the iSteelAsia Group due to its expansion of trading operations. AR over 365 days increased by about 213% or approximately HK$13 million. These long outstanding receivables were mainly final project payments and retention for the kitchen cabinets installation projects and projects of the discontinued operations. The VSC Group had evaluated the recoverability of the long outstanding receivables and prudently made provision of approximately HK$7 million against doubtful receivables in FY2002. Overall accounts receivable turnover (average AR divided by sales revenue x 365 days) increased to around 71 days (FY2001 - 55 days).

During the normal course of our businesses, the VSC Group offered credit terms ranged from 30 to 90 days after monthly statement to debtors. An ageing analysis of AR was as follows:

	FY2002	FY2001
	HK$ million	*HK$ million*
0 to 60 days	**358.5**	288.1
61 to 120 days	**93.8**	53.9
121 to 180 days	**17.3**	16.8
181 to 365 days	**3.6**	6.3
Over 365 days	**19.0**	6.1
	492.2	371.2
Less: Provision for bad and doubtful debts	**(21.3)**	(15.3)
	470.9	355.9

2.6 Loans receivable

The VSC Group had granted certain loans with an aim to increase return to the VSC Group. Historically, this business had been persistently profitable as the VSC Group had always taken a very stringent approach to this, and transactions were infrequent and always secured by hard assets and/or personal guarantees. Given the melt down in the local real estate and capital markets, the management considered such business may become risky. Although the VSC Group has yet to experience non-performance in these loans receivables, the management is seriously considering the VSC Group's future engagement in this type of transaction, and has taken a prudent approach to make approximately HK$16 million of general provision to reflect the additional risk due to the continual depression of the local economy and the slow repayment of the loans. The VSC Group would continue to closely monitor the outstanding loans receivables and is confident that these loans can be recovered in the coming years.

2.7 Pledged bank deposits

Pledged bank deposits represented security for Renminbi ("RMB") loan for the deposit system required by the China customs office. In FY2002, our Dongguan coil centre had attained Class A Enterprise status and was thus exempted from the deposit requirement. The pledged bank deposits of about HK$3 million at year end were held as deposits for contracts entered in FY2002 but not yet completed. Such deposits would be released in the coming year once the contracts were completed.

2.8 Total liabilities for inventory purchases

Sum of the short-term bank borrowings, accounts and bills payable was increased by about 92%. The increase was mainly due to the increased purchases made by the iSteelAsia Group and initial capital investment in various new business set up such as enclosure systems. Gearing ratio (bank borrowings and bills payable divided by shareholders' equity) was also increased to about 0.66 (2001 – 0.22).

2.9 Capital and reserves

Major changes and movements in our capital and reserves are highlighted as follows:

a) Decreases in reserve of about HK$55 million were due to deficit on revaluation of long-term investments, which was offset against surplus recognised previously.

b) Because of a change in accounting policy, dividends declared after year end were recorded as a separate component of shareholders' equity. As a result, shareholders' equity as at 1st April, 2001 increased by approximately HK$82 million, representing the proposed final dividend for FY2001.

As a whole, shareholders' equity represented by the sum of capital and reserves decreased by about 20% to approximately HK$523 million.

(3) OTHER FINANCIAL ANALYSIS

3.1 Liquidity and financing

As shown in the consolidated cash flow statement, the VSC Group's cash flows had been decreased. A net cash outflow of approximately HK$6 million from operating activities was recorded in FY2002 as compared to a net cash inflow of approximately HK$134 million for FY2001. Such decrease was mainly due to the increase in accounts receivables and relatively lower reduction in inventories. Together with the net cash outflow of approximately HK$124 million for interest, dividend, Hong Kong profits tax paid and other investing activities after financing, cash and cash equivalents decreased by approximately HK$129 million. Liquidity ratios such as current ratio (currents assets divided by current liabilities) and quick ratio (current assets excluding inventories divided by current liabilities) were reduced but still kept at healthy levels as follows:

				% Change between	
	2002	2001	2000	**2002 and 2001**	2002 and 2000
Current ratio	**1.73**	2.76	1.64	**-37%**	+5%
Quick ratio	**1.25**	1.84	0.95	**-32%**	+32%

The VSC Group's business operations were generally financed by cash generated from its business activities and banking facilities provided by its banks. During the year, the VSC Group obtained new bank finance for about HK$30 million with lower interest cost. As at June 2002, letter of credit and trust receipts loans facilities available were around HK$1.3 billion and around HK$0.7 billion, respectively. The VSC Group also had an outstanding warrant exercisable on or before 18th November, 2004, which if fully subscribed could bring in proceeds in the amount of about HK$42 million. With its strong financial background and keen support from the banks and the investors, the VSC Group is confident to obtain the necessary funding at very competitive pricing for future business expansion.

3.2 Foreign exchange and interest exposure

The foreign currencies involved in the VSC Group's business transactions were primarily US dollar, RMB and Euro.

Majority of the VSC Group's inventory purchases (steel, steel coil and plastics) were made in US dollar whereas majority of sales were denominated in Hong Kong dollar. Theoretically, the VSC Group was subjected to foreign exchange exposure in Hong Kong dollar against US dollar for trust receipts loan borrowings plus any uncovered inventory position to fulfill sales contracts. However, with the strong support from the government to maintain the peg system in Hong Kong and the Chief Executive, Mr. Tung Chee Hwa's recent pledge to keep the peg system unchanged in his second term of presidency, the exchange rate for US dollar should be relatively stable and the VSC Group's potential exposure in US dollar should thus be minimal in the foreseeable future. The VSC Group will continue to monitor closely the exchange risks by requesting US dollar settlement from customers and hedging by forward contracts and applicable derivatives when necessary.

Foreign exchange exposure relating to major businesses and investments in Mainland China were assessed as follows:

		Foreign Exchange Exposure *HK$ million*	Sales Income	Purchases	Local Expenses
a)	Dongguan coil centre	23	HK$/RMB	US$	RMB
b)	Enclosure systems manufacturing	15	RMB	RMB	RMB
c)	Baosteel Jingchang	6	RMB	RMB	RMB
d)	Dongguan investment properties	5	N/A	N/A	N/A
e)	Shanghai Bao Shun Chang	3	RMB	RMB	RMB
f)	Shunde plastics sales outlet	1	RMB	US$/RMB	RMB
	Total:	53			

The VSC Group's various major investments and assets in Mainland China totalling approximately HK$53 million were subjected to foreign exchange exposure for any RMB devaluation upon realisation of these assets or repatriation of profit from these joint ventures. As for coil centre, sales revenues were mainly denominated in Hong Kong dollar with the local operating costs predominantly financed by remittance from Hong Kong head office with limited RMB receipts. As for Shunde plastics sales outlet, all sales revenues were denominated in RMB while purchases were in US dollar and RMB. The local expenses in RMB should be sufficiently covered by the RMB receipts for the operation. Costs of these operations would be increased if there was appreciation in RMB. Fund remitted to coil centre for the deposit system required by the China customs office of approximately HK$3 million was placed with local domestic banks as security for RMB loan and should thus be free from foreign exchange exposure. We do not expect any foreign exchange exposure for operations of enclosure systems manufacturing, Shanghai Bao Shun Chang and Baosteel Jingchang since all their income/expenses will be in RMB. The VSC Group will also continue to match RMB expenditures with RMB receipts to minimise exchange exposure, as well as securing RMB bank loans to finance its operations in Mainland China.

Building products department purchases from several European suppliers mainly in Sterling and Euro. While the amount involved was not very material, movements of these European currencies were closely monitored and hedging by forward contracts were used to avoid erosion of the profit margin.

Interest costs of all import bank loans were levied on US dollar LIBOR/SIBOR basis with very competitive margin. The VSC Group had benefited from such relatively lower and stable interest rate under the existing peg system.