

(Amounts expressed in Hong Kong dollars unless otherwise stated)

1. ORGANISATION AND PRINCIPAL ACTIVITIES

Van Shung Chong Holdings Limited ("VSC") was incorporated in Bermuda on 12th January, 1994 as an exempted company under the Companies Act 1981 of Bermuda. Its shares have been listed on The Stock Exchange of Hong Kong Limited since 18th February, 1994. VSC's Directors consider Huge Top Industrial Ltd., a company incorporated in the British Virgin Islands, to be the ultimate holding company.

VSC is an investment holding company. Its subsidiaries are principally engaged in (i) trading and stockholding of construction materials including steel products, sanitary ware, kitchen cabinets, and the installation work of kitchen cabinets, (ii) manufacturing and trading of industrial products including rolled steel flat products, enclosure systems, engineering plastic resins and injection moulding machines, and (iii) investment holding including property investment and finance business.

2. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants ("HKSA"), accounting principles generally accepted in Hong Kong, and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Principal accounting policies are summarised below:

a. Basis of measurement

The financial statements are prepared on the historical cost basis, except for investment properties and long-term investments which are carried at revalued amounts (see Notes 2.i and 2.j).

b. Adoption of new/revised Statements of Standard Accounting Practice

Effective from 1st April, 2001, VSC and its subsidiaries (together the "VSC Group") have adopted, for the first time, the following SSAPs issued by HKSA:

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

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

b. Adoption of new/revised Statements of Standard Accounting Practice (Cont'd)

The adoption of the above new/revised SSAPs has no material effect on the VSC Group's financial statements, other than as described below:

i. SSAP 9 (revised) – Events after the balance sheet date

In accordance with SSAP 9 (revised), dividends proposed or declared after the balance sheet date in respect of the financial year ended on the balance sheet date are not recognised as a liability at the balance sheet date, but are disclosed as a separate component of shareholders' equity on the face of the balance sheet. This change in accounting policy has been applied retrospectively as a prior year adjustment, resulting in an increase of approximately \$81,716,000 in shareholders' equity as at 1st April, 2001, representing the proposed final dividend for the year ended 31st March, 2001.

ii. SSAP 26 – Segment reporting

Segment information has been disclosed in Note 34 to the financial statements in accordance with SSAP 26.

iii. SSAP 30 – Business combinations

Prior to 1st April, 2001, goodwill was eliminated against retained profit in the year in which it arose. With the introduction of SSAP 30, goodwill arising on or after 1st April, 2001 is capitalised in the balance sheet and is amortised to the income statement on a straight-line basis over its estimated economic life. This represents a change in accounting policy in accordance with SSAP 2 since the VSC Group had not previously followed the policy of capitalising goodwill on the balance sheet. The VSC Group has applied the new accounting policy retrospectively and reinstated goodwill of approximately \$60,056,000. The amortisation of the reinstated goodwill for the years ended 31st March, 2001 and 2002 amounted to approximately \$24,877,000 and nil, respectively, while the remaining balance was amortised prior to 31st March, 2000. As a result, the VSC Group's profit attributable to shareholders for the year ended 31st March, 2001 was decreased by approximately \$24,877,000 and the retained profit as at 1st April, 2000 was increased by the same amount.

In addition to the adoption of the above standards, the VSC Group has adopted the consequential changes made to SSAP 10 – Accounting for investments in associates, SSAP 17 – Property, plant and equipment, SSAP 18 – Revenue, and SSAP 21 – Accounting for interests in joint ventures. The adoption of the consequential changes to these SSAPs has no material effect on the VSC Group's financial statements.

The 2001 comparative figures presented herein have incorporated the effect of adjustments, where applicable, resulting from the adoption of the new/revised SSAPs.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

c. Basis of consolidation

The consolidated financial statements include the accounts of VSC and its subsidiaries, together with the VSC Group's share of post-acquisition profits/losses and reserves of its associates under the equity method of accounting. The results of subsidiaries and associates acquired or disposed of during the year are included in the consolidated financial statements from or to their effective dates of acquisition or disposal. Significant intra-group transactions and balances have been eliminated on consolidation.

d. Goodwill

Goodwill represents the difference between the fair value of the consideration given and the VSC Group's share of the aggregate fair values of the identifiable net assets of subsidiaries acquired. Goodwill is recognised as an asset in the balance sheet and is amortised on a straight-line basis over its estimated economic life. The carrying value of goodwill is assessed periodically or when factors indicating an impairment are present. Any impairment of goodwill is recognised as an expense in the period in which the impairment occurs.

e. Subsidiaries

A subsidiary is a company over which the VSC Group can exercise control, which is normally evidenced when the VSC Group has the power to govern its financial and operating policies so as to obtain benefits from its activities. In VSC's financial statements, investment in subsidiaries is stated at cost less any impairment loss, while income from subsidiaries is recorded to the extent of dividends received and receivable.

f. Associates

An associate is a company over which the VSC Group has significant influence, but not control or joint control, over its financial and operating policy decisions. In the consolidated financial statements, investment in associates is accounted for under the equity method of accounting, whereby the investment is initially recorded at cost and is adjusted thereafter to recognise the VSC Group's share of the post-acquisition results of associates, distributions received from associates, other necessary alterations in the VSC Group's proportionate interest in associates arising from changes in the equity of associates that have not been included in the income statement of associates, amortisation of the difference between the cost of investment and the VSC Group's share of the aggregate fair value of the identifiable net assets acquired at the date of acquisition (goodwill), and any impairment loss. The VSC Group's share of post-acquisition results of associates is included in the consolidated income statement.

g. Contractual joint ventures

A contractual joint venture is an entity established between the VSC Group and one or more other parties for a pre-determined period of time, with the rights and obligations of the joint venture partners being governed by a contract. If the VSC Group is able to control and govern the financial and operating policies of the contractual joint venture so as to obtain benefits from its activities, such joint venture is considered as a de facto subsidiary and is accounted for as such. If the VSC Group can only exercise significant influence over the contractual joint venture, such joint venture is accounted for as an associate.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

h. Property, plant and equipment and depreciation

Property, plant and equipment, other than investment properties, are stated at cost less accumulated depreciation and any impairment loss. Major expenditures on modifications and betterments of property, plant and equipment which will increase their future economic benefits are capitalised, while expenditures on maintenance and repairs are expensed when incurred. Depreciation is provided on a straight-line basis to write off the cost of each asset over its estimated useful life. The annual rates of depreciation are as follows:

Land	2% (lease terms)
Buildings	4%
Furniture and equipment	15% to 33%
Machinery	10%
Motor vehicles	20%

The depreciation methods and useful lives are reviewed periodically to ensure that the methods and rates of depreciation are consistent with the expected pattern of economic benefits from property, plant and equipment.

Gains or losses on disposal of property, plant and equipment are recognised in the income statement based on the net disposal proceeds less the then carrying amount of the assets.

i. Investment properties

Investment properties are leasehold interests in land and buildings held for their long-term investment potential. These properties are included in the balance sheet at their open market value on the basis of an annual valuation by independent qualified valuers. Changes in the value of investment properties are dealt with in the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a deficit on a portfolio basis, in which case the net deficit is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged. When an investment property is disposed of, previously recognised revaluation surpluses are reversed and the gain or loss on disposal reported in the income statement is determined based on the net disposal proceeds less the original cost.

No depreciation is provided for investment properties unless the unexpired lease term is 20 years or less, in which case depreciation is provided on the then carrying value over the unexpired lease term.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

j. Long-term investments

Long-term investments are included in the balance sheet at their fair value. Any change in the fair value on such investments is recognised directly in shareholders' equity in the asset revaluation reserve until the investments are sold or otherwise disposed of or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in the income statement. Transfers from the asset revaluation reserve to the income statement as a result of impairment are reversed when circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

k. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes costs of raw materials computed using the first-in, first-out method of costing and, in the case of work-in-progress and finished goods, also direct labour and an appropriate proportion of production overheads. Net realisable value is based on the estimated selling price in the ordinary course of business, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

l. Installation contracts

When the outcome of an installation contract can be estimated reliably, contract revenue and costs associated with the contract are recognised as revenue and expenses, respectively, by reference to the stage of completion of the contract activity. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of an installation contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable and contract costs are recognised as an expense in the period in which they are incurred.

Installation contracts-in-progress at the balance sheet date are recorded at the amount of costs incurred plus recognised profits less recognised losses and progress billings, and are presented in the balance sheet as gross amount due from customers for installation contract work, an asset, or gross amount due to customers for installation contract work, a liability, where applicable. Amounts billed but not yet paid by customers for work performed on a contract are included in the balance sheet as accounts receivable.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

m. Impairment of assets

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

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

n. Provisions and contingencies

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

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

o. Turnover and revenue recognition

Turnover represents (i) the net invoiced value of merchandise sold after allowances for returns and discounts, (ii) revenue recognised for installation contracts, (iii) rental income, and (iv) interest income from finance business.

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the VSC Group. Sales revenue is recognised when the significant risks and rewards of ownership of the merchandise have been transferred to customers. Revenue from installation contracts is recognised using the percentage-of-completion method (see Note 2.l). Rental income is recognised on a straight-line basis over the period of the relevant leases. Interest income is recognised on a time proportion basis on the principal outstanding and at the rates applicable.

Advance payments received from customers prior to delivery of merchandise are recorded as receipts in advance.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

p. Taxation

Individual companies within the VSC Group provide for profits tax on the basis of their profit for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for profits tax purposes.

Deferred taxation is provided under the liability method, at the current tax rate, in respect of significant timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, except when it is considered that no liability will arise in the foreseeable future. Deferred tax assets are not recognised unless the related benefits are expected to crystallise in the foreseeable future.

q. Employee retirement benefits

Costs of employee retirement benefits are recognised as an expense in the period in which the employees' services are rendered.

r. Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to prepare for its intended use or sale are capitalised as part of the cost of that asset at rates based on the actual cost of the specific borrowings. All other borrowing costs are recognised as an expense in the period in which they are incurred.

s. Operating leases

Operating leases represent leases under which substantially all the risks and rewards of ownership of the leased assets remain with the lessors. Rental payments under operating leases are charged to the income statement on a straight-line basis over the period of the relevant leases.

t. Subsequent events

Post year-end events that provide additional information about financial position at the balance sheet date or those that indicate the going concern assumption is not appropriate ("adjusting events"), are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes when material.

u. Foreign currency translation

Individual companies within the VSC Group maintain their books and records in the primary currencies of their respective operations ("functional currencies"). In the accounts of the individual companies, transactions in other currencies during the year are translated into the functional currencies at the applicable rates of exchange prevailing at the time of the transaction. Monetary assets and liabilities denominated in other currencies are translated into the functional currencies at the applicable rates of exchange in effect at the balance sheet date. Exchange gains or losses are dealt with in the income statement in which they arise.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

u. Foreign currency translation (Cont'd)

The VSC Group prepares consolidated financial statements in Hong Kong dollars. For the purpose of consolidation, all assets and liabilities of subsidiaries with functional currencies other than Hong Kong dollars are translated into Hong Kong dollars at the applicable rates of exchange in effect at the balance sheet date, and all income and expense items at the average applicable exchange rates during the year. Exchange differences arising from such translations are dealt with as movements of cumulative translation adjustments.

v. Cash equivalents

For the purpose of the cash flow statement, cash equivalents represent short-term and highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

w. Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in Hong Kong requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

3. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

a. Details of significant transactions with related parties were:

Name of related party/Nature of transaction	2002 \$'000	2001 \$'000
Metal Logistics Company Limited (i)		
– Sales made by the VSC Group	231,402	118,756
– Commission for procurement services charged to the VSC Group	1,406	1,373
– Administrative service fees earned by the VSC Group	180	180
– Interest earned by the VSC Group	1,336	897
iSteelAsia (Hong Kong) Limited (i)		
– Rental earned by the VSC Group	810	1,860
– Administrative service fees earned by the VSC Group	180	180
– Interest earned by the VSC Group	–	26
– Software sub-licensing fees paid by the VSC Group	2,180	–
EC.com Limited (ii)		
– Rental earned by the VSC Group	<u>1,011</u>	<u>843</u>

Notes:

- (i) Metal Logistics Company Limited and iSteelAsia (Hong Kong) Limited are wholly owned by iSteelAsia.com Limited, a company in which the VSC Group has a 17.77% equity interest.
- (ii) EC.com Limited is beneficially owned and controlled by Mr. Tsang Kwok Tai, Moses, a non-executive director of the Company.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

3. RELATED PARTY TRANSACTIONS (Cont'd)

- b. The amounts due from related companies arising from transactions described in Note 3.a are included in accounts receivable. Details of these balances are as follows:

Name of related party	2002 \$'000	2001 \$'000
Metal Logistics Company Limited (i)	137,711	17,087
EC.com Limited	—	213
	<u>137,711</u>	<u>17,300</u>

Note:

- (i) The balance was unsecured, repayable within the normal credit term and bore interest at commercial lending rates for overdue balances.

4. DISCONTINUED OPERATIONS

During the year ended 31st March, 2002, the VSC Group discontinued its rebar processing operations, including the sale of rebars with provision of cut and bend services. The results of this business were presented as discontinued operations in the consolidated income statement for the years ended 31st March, 2001 and 2002.

Details of the results of the discontinued operations were:

	2002 \$'000	2001 \$'000
Turnover	12,733	36,164
Cost of sales	(12,425)	(34,811)
Gross profit	308	1,353
Selling and distribution expenses	(454)	(1,258)
General and administrative expenses, including costs of discontinuance	(3,696)	(48,590)
Loss from operations	(3,842)	(48,495)
Interest income	—	753
Interest expense	—	(653)
Loss attributable to shareholders	<u>(3,842)</u>	<u>(48,395)</u>

(Amounts expressed in Hong Kong dollars unless otherwise stated)

5. TURNOVER AND REVENUE

Turnover and revenue (consolidated) consisted of:

	2002 \$'000	2001 \$'000
Continuing operations –		
Trading and stockholding of construction materials		
– Steel products – rebars, piling and flat products	1,679,085	1,751,901
– Sanitary ware and kitchen cabinets (including installation revenue)	55,996	69,109
Manufacturing and trading of industrial products		
– Processing of rolled steel flat products	234,899	221,664
– Enclosure systems	5,609	–
– Engineering plastic resins and machinery	142,988	291,629
Investment holding		
– Rental income	6,535	4,096
– Interest income from finance business	–	1,888
	2,125,112	2,340,287
Discontinued operations –		
Sale of processed rebars	12,733	36,164
Turnover	2,137,845	2,376,451
Interest income	2,720	4,778
Total revenue	<u>2,140,565</u>	<u>2,381,229</u>

(Amounts expressed in Hong Kong dollars unless otherwise stated)

6. GAIN ON INVESTMENTS

Gain on investments (consolidated) consisted of:

	2002 \$'000	2001 \$'000
Gain on disposal of shares in unlisted companies (i)	–	21,214
Dilution gain on shares in iSteelAsia.com Limited (i)	–	58,355
Gain resulting from distribution in specie of shares in iSteelAsia.com Limited (i)	–	281,826
Return from a joint venture (ii)	6,488	–
Impairment loss on investments (iii)	(97)	(37,545)
	<u>6,391</u>	<u>323,850</u>

Notes:

- (i) In April 2000, the VSC Group disposed of certain equity interests in two subsidiaries, namely MetalAsia Holdings Limited (from 100% to 44%) and iSteelAsia Holdings Limited (from 80% to 44%) and recognised a gain of approximately \$21,214,000. Thereafter, MetalAsia Holdings Limited and iSteelAsia Holdings Limited ceased to be subsidiaries of the VSC Group.

In April 2000, the VSC Group's equity interest in iSteelAsia.com Limited was diluted from 44% to 38.72% as a result of the issuance of new shares of iSteelAsia.com Limited. In this connection, the VSC Group recognised a dilution gain of approximately \$58,355,000 and transferred an amount equal to such dilution gain from retained profit to capital reserve.

In April 2000, VSC distributed to its shareholders a dividend in specie in the form of 285,200,000 shares in iSteelAsia.com Limited on the basis of 1,562 shares of iSteelAsia.com Limited for every 2,000 shares in VSC. The 285,200,000 shares in iSteelAsia.com Limited represented 19.6% of the equity of iSteelAsia.com Limited, and had a valuation of \$308,016,000 based on the offering price of \$1.08 per share in connection with the listing of the shares of iSteelAsia.com Limited on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited in April 2000. In this connection, the VSC Group recognised a gain of approximately \$281,826,000.

- (ii) During the year ended 31st March, 2002, the VSC Group received a return of approximately \$6,488,000 relating to its investment in a joint venture, which was fully provided for in prior years.
- (iii) During the year ended 31st March, 2002, the VSC Group recorded an impairment loss of approximately \$97,000 (2001 – \$37,545,000) in respect of a long-term investment.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

7. GAIN (LOSS) ON INVESTMENT PROPERTIES

Gain (Loss) on investment properties (consolidated) consisted of:

	2002 \$'000	2001 \$'000
Surplus (Deficit) on revaluation of investment properties	1,160	(29,627)
Loss on disposal of an investment property	–	(4,003)
	<u>1,160</u>	<u>(33,630)</u>

8. PROFIT BEFORE TAXATION

Profit before taxation (consolidated) was determined after charging or crediting the following items:

	2002 \$'000	2001 \$'000
After charging –		
Cost of inventories sold (excluding provision for obsolete and slow-moving inventories)	1,980,799	2,136,191
Staff costs (including directors' emoluments)	59,185	72,340
Operating lease rentals of premises and motor vehicles	11,550	13,458
Provision for/Write off of bad and doubtful accounts receivable	6,649	13,198
Provision for doubtful loans receivable	16,074	20,486
Provision for obsolete and slow-moving inventories	3,276	1,706
Depreciation of property, plant and equipment	11,715	13,842
Impairment loss on property, plant and equipment relating to the discontinued operations	–	9,701
Net loss on disposals of property, plant and equipment	–	125
Interest on bank borrowings wholly repayable within five years	7,908	11,732
Net exchange loss	113	3,443
Auditors' remuneration	808	900
After crediting –		
Rental income from		
– related companies (Note 3.a)	1,821	2,703
– third parties	4,714	1,393
Net gain on disposals of property, plant and equipment	389	–
Interest income from		
– bank deposits	816	1,445
– other deposits	1	1,490
– overdue accounts receivable	567	920
– amounts due from related companies (Note 3.a)	1,336	923
– finance business	–	1,888

(Amounts expressed in Hong Kong dollars unless otherwise stated)

9. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

a. Details of directors' emoluments were:

	2002	2001
	\$'000	\$'000
Fees for executive directors	–	–
Fees for non-executive directors	320	320
Other emoluments for executive directors		
– Basic salaries and allowances	5,378	5,352
– Discretionary bonuses *	2,200	9,617
– Contributions to pension schemes	61	132
	7,959	15,421

* The executive directors were entitled to discretionary bonuses which were determined with reference to the financial performance, including profit attributable to shareholders, of the VSC Group.

In addition to the above-mentioned emoluments, the VSC Group provided a residential apartment to an executive director, with the annual rateable value of the apartment amounting to approximately \$1,038,000 (2001 – \$1,038,000).

During the year, no director waived any emolument and no emolument was incurred as inducement to join or upon joining the VSC Group or as compensation for loss of office in respect of directors (2001 – Nil).

Analysis of directors' emoluments (including the rateable value of the apartment used as a director's residence) by number of directors and emolument ranges was as follows:

	2002	2001
Executive directors		
– Nil to \$1,000,000	2	–
– \$1,000,001 to 1,500,000	1	–
– \$1,500,001 to \$2,000,000	2	1
– \$2,000,001 to \$2,500,000	1	1
– \$2,500,001 to \$3,000,000	–	1
– \$3,000,001 to \$3,500,000	–	3
	6	6
Non-executive directors		
– Nil to \$1,000,000	4	4
	10	10

(Amounts expressed in Hong Kong dollars unless otherwise stated)

9. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (Cont'd)

- b. Details of remuneration of the five highest paid individuals (including directors and other employees) were:

	2002 \$'000	2001 \$'000
Basic salaries and allowances	6,437	6,001
Bonuses	1,900	7,808
Contributions to pension schemes	95	169
	<u>8,432</u>	<u>13,978</u>

The five highest paid individuals included four (2001 – four) executive directors of VSC, details of whose emoluments have been included in Note 9.a above.

In addition to the above-mentioned emoluments, the VSC Group provided a residential apartment to an executive director, who is one of the five highest paid individuals (see Note 9.a).

During the year, no emolument of the five highest paid individuals (including executive directors and other employees) was incurred as inducement to join or upon joining the VSC Group or as compensation for loss of office (2001 – Nil).

Analysis of emoluments (including the rateable value of the apartment used as a director's residence) of the five highest paid individuals (including executive directors and other employees) by number of individuals and emolument ranges was as follows:

	2002	2001
\$1,000,001 to \$1,500,000	2	–
\$1,500,001 to \$2,000,000	2	–
\$2,000,001 to \$2,500,000	1	1
\$2,500,001 to \$3,000,000	–	1
\$3,000,001 to \$3,500,000	–	3
	<u>5</u>	<u>5</u>

(Amounts expressed in Hong Kong dollars unless otherwise stated)

10. TAXATION

Taxation (consolidated) consisted of:

	2002 \$'000	2001 \$'000
VSC and subsidiaries –		
Current taxation		
– Hong Kong profits tax	2,348	14,938
– Mainland China enterprise income tax	232	22
(Write-back of) Provision for deferred taxation	(1,820)	573
	<u>760</u>	<u>15,533</u>

VSC is exempt from taxation in Bermuda until 2016.

Hong Kong profits tax has been provided at 16% (2001 – 16%) of the estimated assessable profit arising in or derived from Hong Kong.

The subsidiaries established in Mainland China are subject to Mainland China enterprise income tax at rates ranging from 15% to 33% (2001 – 15% to 24%). However, those subsidiaries which are engaged in manufacturing are exempt from Mainland China enterprise income tax for two years starting from the first year of profitable operations after offsetting prior years' tax losses, followed by a 50% reduction for the next three years.

11. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders has included a profit of approximately \$9,143,000 (2001 – \$400,366,000) dealt with in the financial statements of VSC.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

12. DIVIDENDS

Dividends consisted of:

	2002 \$'000	2001 \$'000
Interim dividends		
– Cash dividend of \$0.018 (2001 – \$0.03) per share	6,390	10,659
– Distribution in specie of shares in iSteelAsia.com Limited (Note 6)	–	308,016
	6,390	318,675
Proposed final cash dividend of \$0.008 (2001 – \$0.23) per share	2,840	81,716
	9,230	400,391

13. RETAINED PROFIT

Retained profit consisted of:

	2002 \$'000	2001 \$'000
VSC	7,102	7,496
Subsidiaries	120,035	118,980
Associates	(1,476)	(1,388)
	125,661	125,088

14. EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31st March, 2002 is based on the consolidated profit attributable to shareholders of approximately \$10,110,000 (2001 – \$285,836,000) and the weighted average number of approximately 355,130,000 shares (2001 – 355,417,000 shares) in issue during the year.

The calculation of diluted earnings per share for the year ended 31st March, 2002 is based on the consolidated profit attributable to shareholders of approximately \$10,110,000 (2001 – \$285,836,000) and the diluted weighted average number of approximately 356,091,000 shares (2001 – 359,625,000 shares) in issue after adjusting for the effect of all dilutive potential shares.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

14. EARNINGS PER SHARE (Cont'd)

A reconciliation of the weighted average number of shares used in calculating the basic earnings per share and the diluted earnings per share is as follows:

	2002 '000	2001 '000
Weighted average number of shares used in calculating basic earnings per share	355,130	355,417
Adjustment for potential dilutive effect in respect of outstanding employee share options	<u>961</u>	<u>4,208</u>
Weighted average number of shares used in calculating diluted earnings per share	<u>356,091</u>	<u>359,625</u>

(Amounts expressed in Hong Kong dollars unless otherwise stated)

15. PROPERTY, PLANT AND EQUIPMENT

Movements of property, plant and equipment (consolidated) were:

	2002					2001
	Land and buildings \$'000	Furniture and equipment \$'000	Machinery \$'000	Motor vehicles \$'000	Total \$'000	Total \$'000
Cost						
Beginning of year	70,984	27,793	31,502	5,252	135,531	157,262
Additions	2,453	20,664	17,007	2,174	42,298	10,812
Attributable to acquisition of a business	-	-	8,851	-	8,851	-
Disposals	-	(7,841)	(9,634)	(1,836)	(19,311)	(1,762)
Transfer to investment properties	-	-	-	-	-	(32,372)
Attributable to disposal of interests in subsidiaries	-	-	-	-	-	(247)
Translation adjustments	(481)	29	263	22	(167)	1,838
End of year	<u>72,956</u>	<u>40,645</u>	<u>47,989</u>	<u>5,612</u>	<u>167,202</u>	<u>135,531</u>
Accumulated depreciation and impairment loss						
Beginning of year	8,811	15,146	22,569	2,709	49,235	26,277
Provision for the year	2,201	5,686	3,033	795	11,715	13,842
Impairment loss relating to the discontinued operations	-	-	-	-	-	9,701
Disposals	(31)	(6,960)	(8,610)	(1,679)	(17,280)	(673)
Transfer to investment properties	-	-	-	-	-	(491)
Attributable to disposal of interests in subsidiaries	-	-	-	-	-	(6)
Translation adjustments	71	(1)	186	28	284	585
End of year	<u>11,052</u>	<u>13,871</u>	<u>17,178</u>	<u>1,853</u>	<u>43,954</u>	<u>49,235</u>
Net book value						
End of year	<u>61,904</u>	<u>26,774</u>	<u>30,811</u>	<u>3,759</u>	<u>123,248</u>	<u>86,296</u>
Beginning of year	<u>62,173</u>	<u>12,647</u>	<u>8,933</u>	<u>2,543</u>	<u>86,296</u>	<u>130,985</u>

(Amounts expressed in Hong Kong dollars unless otherwise stated)

15. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

Details of the geographical locations and tenure of land and buildings (consolidated) were:

	2002 \$'000	2001 \$'000
Hong Kong		
– medium-term leases	16,214	16,582
– long-term leases	30,171	31,181
Mainland China		
– medium-term leases	15,519	14,410
	<u>61,904</u>	<u>62,173</u>

16. INVESTMENT PROPERTIES

Movements of investment properties (consolidated) were:

	2002 \$'000	2001 \$'000
Beginning of year	31,340	36,800
Transfer from property, plant and equipment	–	31,881
Disposals	–	(7,714)
Surplus (Deficit) on revaluation	1,160	(29,627)
	<u>32,500</u>	<u>31,340</u>

Details of the geographical locations and tenure of investment properties (consolidated) were:

	2002 \$'000	2001 \$'000
Hong Kong		
– medium-term leases	16,000	16,000
– long-term leases	11,700	10,700
Mainland China		
– long-term leases	4,800	4,640
	<u>32,500</u>	<u>31,340</u>

Investment properties were stated at open market value as at 31st March, 2002 as determined by Jointgoal Surveyors Limited, independent qualified valuers.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

17. INVESTMENT IN SUBSIDIARIES

In VSC's balance sheet, investment in subsidiaries consisted of:

	2002 \$'000	2001 \$'000
Unlisted shares, at cost	71,746	71,746
Due from subsidiaries	328,939	329,466
	<u>400,685</u>	<u>401,212</u>

The amounts due from subsidiaries are unsecured, non-interest bearing and not repayable until the subsidiaries are financially capable of doing so.

The underlying value of the investment in subsidiaries is, in the opinion of VSC's Directors and the VSC Group's management, not less than its carrying value as at 31st March, 2002.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

17. INVESTMENT IN SUBSIDIARIES (Cont'd)

Details of the principal subsidiaries as at 31st March, 2002 are:

Name	Place of incorporation and operations	Issued and fully paid share capital/ registered capital	Percentage of equity interest attributable to the VSC Group (i)	Principal activities
Dongguan Van Shung Chong Steel Products Co., Ltd. (ii)	Mainland China	\$23,000,000	100%	Processing of rolled steel flat products
Pulsar Enterprises Ltd.	British Virgin Islands/ Hong Kong	US\$2	100%	Property holding
Senior Rich Development Limited	Hong Kong	\$380 ordinary \$10,000 non-voting deferred (iii)	100% 100%	Property holding
Shanghai Bao Shun Chang International Trading Co., Ltd. (iv)	Mainland China	US\$600,000	66.7%	Trading and stockholding of steel
Shun Bao International Enterprise Limited	British Virgin Islands/ Hong Kong	US\$2	100%	Property holding
Shunde Wanjun Plastic Company Limited (v)	Mainland China	RMB2,000,000	50% (v)	Trading of plastic resins
Silver Lane Co., Ltd.	British Virgin Islands/ Mainland China	US\$1	100%	Investment holding
Tomahawk Capital Limited	Hong Kong	\$10,000	100%	Finance business
VJY Telecommunication Equipment (Shenzhen) Company Limited (vi)	Mainland China	\$15,000,000	100%	Manufacturing of enclosure systems

(Amounts expressed in Hong Kong dollars unless otherwise stated)

17. INVESTMENT IN SUBSIDIARIES (Cont'd)

Name	Place of incorporation and operations	Issued and fully paid share capital/ registered capital	Percentage of equity interest attributable to the VSC Group (i)	Principal activities
Van Shung Chong (B.V.I.) Limited	British Virgin Islands	US\$6	100%	Investment holding
Van Shung Chong Hong Limited	Hong Kong	\$2,000 ordinary \$10,000,000 non-voting deferred (iii)	100% 100%	Trading and stockholding of steel
Vantage Godown Company Limited	Hong Kong	\$200,000	100%	Provision of warehousing services
VSC Building Products Company Limited	Hong Kong	\$2	100%	Trading of sanitary ware, kitchen cabinets and kitchen cabinet installation
VSC Energy Development Limited	British Virgin Islands/ Mainland China	US\$2	100%	Property holding
VSC Engineering Products Company Limited	Hong Kong	\$2	100%	Sales of engineering products
VSC Group Development Company Limited	British Virgin Islands	US\$2	100%	Investment holding
VSC Plastics Company Limited	Hong Kong	\$2	100%	Trading of plastics and injection moulding machines
VSC Property Holdings Limited	British Virgin Islands	US\$2	100%	Investment holding
VSC Steel Company Limited	Hong Kong	\$38,000 ordinary \$20,000,000 non-voting deferred (iii)	100% 100%	Trading and stockholding of steel
VSC Steel Products Company Limited	Hong Kong	\$2	100%	Trading of processed rolled steel flat products

(Amounts expressed in Hong Kong dollars unless otherwise stated)

17. INVESTMENT IN SUBSIDIARIES (Cont'd)

Notes:

- (i) The shares of Van Shung Chong (B.V.I.) Limited are held directly by VSC. The shares of other subsidiaries are held indirectly.
- (ii) Dongguan Van Shung Chong Steel Products Co., Ltd. is a contractual joint venture established in Mainland China with an operating period of 12 years to 2007.
- (iii) These non-voting deferred shares are owned by the VSC Group. The non-voting deferred shares of Van Shung Chong Hong Limited have no voting rights, are not entitled to dividends, and are not entitled to any distributions upon winding up unless a sum of \$2,000,000,000 per share has been distributed to the holders of ordinary shares. The non-voting deferred shares of VSC Steel Company Limited and Senior Rich Development Limited have no voting rights, are not entitled to dividends, and are not entitled to any distributions upon winding up unless a sum of \$100,000,000,000 has been distributed to the holders of ordinary shares.
- (iv) Shanghai Bao Shun Chang International Trading Co., Ltd. is an equity joint venture established in Mainland China with an operating period of 20 years to 2014.
- (v) Shunde Wanjun Plastic Company Limited ("SWP") is a limited liability company established in Mainland China, with total registered capital of RMB10,000,000, of which RMB2,000,000 had been injected by the VSC Group and the other shareholders as at 31st March, 2002. SWP is regarded a subsidiary as the VSC Group can exercise control over its financial and operating activities.
- (vi) VJY Telecommunication Equipment (Shenzhen) Company Limited is a wholly foreign owned enterprise established in Mainland China with an operating period of 15 years to 2016.

The above summary lists the principal subsidiaries which, in the opinion of VSC's Directors and the VSC Group's management, principally affected the results or formed a substantial portion of the net assets of the VSC Group. To give details of other subsidiaries would, in the opinion of VSC's Directors and the VSC Group's management, result in particulars of excessive length.

None of the subsidiaries had any loan capital in issue at any time during the year ended 31st March, 2002.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

18. INVESTMENT IN ASSOCIATES

Investment in associates (consolidated) consisted of:

	2002 \$'000	2001 \$'000
Unlisted shares, at cost	16,212	16,212
Share of post-acquisition loss	(1,476)	(1,388)
Less: Accumulated impairment losses	<u>(14,735)</u>	<u>(14,735)</u>
	<u>1</u>	<u>89</u>
Advances to associates	12,533	12,533
Less: Provision for doubtful receivables	<u>(12,532)</u>	<u>(12,532)</u>
	<u>1</u>	<u>1</u>
	<u><u>2</u></u>	<u><u>90</u></u>

The advances to associates are unsecured, non-interest bearing and not repayable until the associates are financially capable of doing so.

Details of the associates as at 31st March, 2002 are:

Name	Place of incorporation and operations	Issued and fully paid share capital/ registered capital	Percentage of equity interest held indirectly	Principal activities
Dongguan Luen Tung Harbour & Dock Co., Ltd. (i)	Mainland China	\$20,418,128	30%	Provision of pier services
GFTZ Guangbo Power Plant Fuel Co. Ltd. (ii)	Mainland China	RMB17,400,000	57.5% (ii)	Storage and distribution of fuel and oil
Steel Supreme Limited	British Virgin Islands/ Mainland China	US\$100	30%	Provision of pier services

(Amounts expressed in Hong Kong dollars unless otherwise stated)

18. INVESTMENT IN ASSOCIATES (Cont'd)

Notes:

- (i) Dongguan Luen Tung Harbour & Dock Co., Ltd. is a contractual joint venture established in Mainland China with an operating period of 20 years to 2015.
- (ii) GFTZ Guangbo Power Plant Fuel Co. Ltd. is a contractual joint venture established in Mainland China with an operating period of 30 years to 2025. This is considered by VSC's Directors and the VSC Group's management to be an associate as VSC cannot control but can only exercise significant influence over its management.

The underlying value of the investment in associates is, in the opinion of VSC's Directors and the VSC Group's management, not less than the carrying value as at 31st March, 2002.

19. LONG-TERM INVESTMENTS

Long-term investments (consolidated) consisted of:

	2002 \$'000	2001 \$'000
Investment in shares listed in Hong Kong		
– At cost	42,722	42,722
– Change in fair value	(15,680)	39,093
	27,042	81,815
Unlisted investment		
– At cost	5,616	5,616
– Accumulated impairment loss	(97)	–
	32,561	87,431

As at 31st March, 2002, the investment in shares listed in Hong Kong includes approximately 17.8% (2001 – 19.1%) of the equity interests in 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, and an approximately 1.0% (2001 – 1.0%) equity interest in iMerchants Limited, another company listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. These investments were stated in the balance sheet at their quoted market values as at 31st March, 2002.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

20. GOODWILL

Movements of goodwill (consolidated) were:

	2002 \$'000	2001 \$'000
Cost		
Beginning of year, as restated (Note 2.b)	60,056	60,056
Acquisition of a business (Note 33.b)	7,398	—
End of year	67,454	60,056
Accumulated amortisation		
Beginning of year, as restated (Note 2.b)	60,056	35,179
Amortisation for the year	924	24,877
End of year	60,980	60,056
Net book value		
End of year	6,474	—
Beginning of year	—	24,877

During the year ended 31st March, 2002, the VSC Group acquired a business for cash of approximately \$19,722,000 (see Note 33.b), resulting in a goodwill of approximately \$7,398,000, which was amortised on a straight-line basis over its estimated useful life of four years.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

21. INVENTORIES

Inventories (consolidated) consisted of steel rebars, H-piles, sheet piles, rolled steel flat products, enclosure systems, sanitary ware, kitchen cabinets, engineering plastic resins and machinery spare parts for trading purposes.

	2002 \$'000	2001 \$'000
Gross inventories	224,396	242,200
Less: Provision for obsolete and slow-moving inventories	(6,621)	(3,345)
	<u>217,775</u>	<u>238,855</u>

As at 31st March, 2002, inventories of approximately \$12,616,000 (2001 – \$11,438,000) were stated at net realisable value.

Certain inventories were held under trust receipts bank loans (see Notes 26 and 37).

22. GROSS AMOUNT DUE FROM CUSTOMERS FOR INSTALLATION CONTRACT WORK

Gross amount due from customers for installation contract work (consolidated) consisted of:

	2002 \$'000	2001 \$'000
Costs plus recognised profits	21,105	58,118
Less: Progress billings received and receivable	(19,214)	(57,130)
Foreseeable losses	–	(72)
	<u>1,891</u>	<u>916</u>

(Amounts expressed in Hong Kong dollars unless otherwise stated)

23. ACCOUNTS RECEIVABLE

A major portion of the VSC Group's sales are made on an open account basis, with credit periods ranging from 30 to 90 days.

Ageing analysis of accounts receivable (consolidated) was as follows:

	2002 \$'000	2001 \$'000
0 to 60 days	358,439	288,069
61 to 120 days	93,837	53,904
121 to 180 days	17,281	16,847
181 to 365 days	3,616	6,290
Over 365 days	19,036	6,074
	<u>492,209</u>	<u>371,184</u>
Less: Provision for bad and doubtful receivables	<u>(21,315)</u>	<u>(15,306)</u>
	<u><u>470,894</u></u>	<u><u>355,878</u></u>

24. LOANS RECEIVABLE

Loans receivable (consolidated) consisted of:

	2002 \$'000	2001 \$'000
Cost	35,839	37,331
Less: Provision for doubtful loans receivable	<u>(24,996)</u>	<u>(8,922)</u>
	<u><u>10,843</u></u>	<u><u>28,409</u></u>

Loans receivable bore interest at rate of HIBOR plus 3% or 30% per annum (2001 – HIBOR plus 3% or 30% per annum).

25. CASH AND BANK DEPOSITS

As at 31st March, 2002, bank deposits of approximately \$3,021,000 (2001 – \$5,492,000) were placed with a bank in Mainland China as collateral for the VSC Group's obligations to customs authorities.

As at 31st March, 2002, approximately \$25,935,000 (2001 – \$27,506,000) of the VSC Group's cash and bank deposits, including pledged bank deposits, were denominated in Chinese Renminbi, a currency which is not freely convertible into other currencies.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

26. SHORT-TERM BANK BORROWINGS

Short-term bank borrowings (consolidated) consisted of:

	2002 \$'000	2001 \$'000
Trust receipts bank loans	225,182	89,490
Short-term bank loans	37,800	17,280
	<u>262,982</u>	<u>106,770</u>

Trust receipts bank loans were secured by inventories released under such loans (see Note 21). Details of the VSC Group's banking facilities are set out in Note 37.

27. ACCOUNTS AND BILLS PAYABLE

Ageing analysis of accounts and bills payable (consolidated) was as follows:

	2002 \$'000	2001 \$'000
0 to 60 days	145,288	104,438
61 to 120 days	1,920	1,287
121 to 180 days	1,761	439
181 to 365 days	1,000	2,158
Over 365 days	2,602	1,023
	<u>152,571</u>	<u>109,345</u>

28. DEFERRED TAXATION

Movements of deferred taxation (consolidated) were:

	2002 \$'000	2001 \$'000
Beginning of year	2,070	1,497
(Write-back of) Provision for net timing differences	(1,820)	573
End of year	<u>250</u>	<u>2,070</u>

Deferred taxation represented the taxation effect of accelerated depreciation of property, plant and equipment for taxation purposes.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

28. DEFERRED TAXATION (Cont'd)

There was no significant unprovided deferred taxation as at 31st March, 2002. No deferred tax on the revaluation surplus/deficit of the asset revaluation reserve has been provided because the revaluations do not constitute a timing difference as the VSC Group intends to hold the investments for the long-term and accordingly the realisation of such surplus/deficit is not subject to taxation in Hong Kong.

29. SHARE CAPITAL

Movements were:

	2002		2001	
	Number of shares '000	Nominal value \$'000	Number of shares '000	Nominal value \$'000
Authorised (Ordinary shares of \$0.10 each)	<u>1,000,000</u>	<u>100,000</u>	<u>1,000,000</u>	<u>100,000</u>
Issued and fully paid (Ordinary shares of \$0.10 each)				
Beginning of year	355,288	35,529	340,882	34,088
Issued upon exercise of warrants (Note 30)	1	–	23,936	2,394
Issued upon exercise of employee share options	–	–	300	30
Repurchase of shares (i)	<u>(310)</u>	<u>(31)</u>	<u>(9,830)</u>	<u>(983)</u>
End of year	<u>354,979</u>	<u>35,498</u>	<u>355,288</u>	<u>35,529</u>

Note:

- (i) During the year ended 31st March, 2002, VSC repurchased, through The Stock Exchange of Hong Kong Limited, 310,000 shares (2001 – 9,830,000 shares) at an aggregate consideration of approximately \$307,000 (2001 – \$19,969,000), including transaction costs. These shares were subsequently cancelled. The aggregate cost of the repurchase of shares of approximately \$307,000 (2001 – \$19,969,000) was transferred from retained profit to capital redemption reserve. Details of such repurchases were as follows:

Month of repurchase	Number of shares repurchased '000	Price per share		Amount paid \$'000
		Lowest	Highest	
September 2001	<u>310</u>	\$0.96	\$1.01	306
Transaction costs				<u>1</u>
				<u>307</u>

(Amounts expressed in Hong Kong dollars unless otherwise stated)

30. WARRANTS

Movements of warrants were:

Date of issue	Exercise period	Subscription price per share	Number of warrants				
			Beginning of year '000	Issued (i) '000	Exercised (ii) '000	Cancelled upon expiration '000	End of year '000
28th January, 2000	16th February, 2000 to 16th February 2002	\$2.00	34,712	-	-	(34,712)	-
12th November, 2001 (i)	19th November, 2001 to 18th November, 2004	\$1.18	-	35,498	(1)	-	35,497
			<u>34,712</u>	<u>35,498</u>	<u>(1)</u>	<u>(34,712)</u>	<u>35,497</u>

Notes:

- (i) On 12th November, 2001, VSC issued approximately 35,498,000 warrants to its shareholders on the basis of one warrant for every ten ordinary shares of VSC at no charge. The warrants entitle the holders to subscribe in cash for ordinary shares of \$0.10 each in VSC at a subscription price of \$1.18 each (subject to adjustment) and are exercisable between 19th November, 2001 to 18th November, 2004.
- (ii) During the year ended 31st March, 2002, approximately 1,000 warrants (2001 – 23,936,000 warrants) were exercised to subscribe for approximately 1,000 shares (2001 – 23,936,000 shares) of VSC at a consideration of approximately \$1,000 (2001 – \$47,872,000).

31. EMPLOYEE SHARE OPTIONS

VSC has an employee share option scheme (the “Old Share Option Scheme”), under which it may grant options to employees (including executive directors) of the VSC Group to subscribe for shares in VSC, subject to a maximum of 10% of the nominal value of the issued share capital of VSC from time to time, excluding for this purpose shares issued on the exercise of options. The subscription price will be determined by VSC’s Board of Directors, and will be the higher of the nominal value of the shares and 80% of the average of the closing price of the shares quoted on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of offer of the options.

Following the amendment of the Listing Rules, during the year ended 31st March, 2002, VSC adopted a new share option scheme (the “New Share Option Scheme”) to replace the Old Share Option Scheme. The terms of the New Share Option Scheme are contained in a circular sent to shareholders of VSC in October 2001. However, all options granted prior to the adoption of the New Share Option Scheme shall continue to be exercisable in accordance with the terms of the Old Share Option Scheme. As at 31st March, 2002, no employee share options have been granted under the New Share Option Scheme.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

31. EMPLOYEE SHARE OPTIONS (Cont'd)

Movements of employee share options under the Old Share Option Scheme were:

Date of grant	Exercise period	Subscription price per share	Number of employee share options			
			Beginning of year '000	Exercised '000	Lapsed upon resignation '000	End of year '000
3rd March, 1994	1st April, 1996 to 31st March, 2003	\$0.9360	6,000	–	–	6,000
17th December, 1994	15th January, 1997 to 15th January, 2004	\$1.1344	6,500	–	–	6,500
18th January, 1996	15th January, 1997 to 15th January, 2004	\$1.2528	4,000	–	–	4,000
18th March, 1996	1st May, 1998 to 22nd January, 2004	\$1.3840	3,300	–	–	3,300
10th January, 2000	1st February, 2002 to 22nd January, 2004	\$1.6880	1,400	–	(300)	1,100
			<u>21,200</u>	<u>–</u>	<u>(300)</u>	<u>20,900</u>

(Amounts expressed in Hong Kong dollars unless otherwise stated)

32. RESERVES AND PROPOSED DIVIDENDS

Movements were:

	Share premium \$'000	Capital redemption reserve \$'000	Capital reserve \$'000	Asset revaluation reserve \$'000	Other reserves \$'000	Cumulative translation adjustments \$'000	Total \$'000	Proposed dividends \$'000
Consolidated								
As at 1st April, 2000								
– as previously reported	254,768	2,842	–	(10,109)	301	(2,191)	245,611	–
– prior year adjustment (Note 2.b)	–	–	–	–	–	–	–	21,317
– as restated	254,768	2,842	–	(10,109)	301	(2,191)	245,611	21,317
Premium arising from issue of shares upon								
– exercise of warrants (Note 30)	45,478	–	–	–	–	–	45,478	–
– exercise of employee share options	310	–	–	–	–	–	310	–
Repurchase of shares (Note 29)	(18,986)	19,969	–	–	–	–	983	–
Surplus on revaluation of shares in iSteelAsia.com Limited upon its listing	–	–	–	556,537	–	–	556,537	–
Realisation of surplus upon distribution in specie of shares in iSteelAsia.com Limited	–	–	–	(281,826)	–	–	(281,826)	–
Deficit on revaluation of long-term investments	–	–	–	(221,010)	–	–	(221,010)	–
Realisation of deficit as impairment loss	–	–	–	10,109	–	–	10,109	–
Transfer from retained profit to capital reserve (Note 6)	–	–	58,355	–	–	–	58,355	–
Proposed dividends								
– interim dividend	–	–	–	–	–	–	–	10,659
– distribution in specie of shares in iSteelAsia.com Limited	–	–	–	–	–	–	–	308,016
– final dividend	–	–	–	–	–	–	–	81,716
Dividends paid/settled	–	–	–	–	–	–	–	(339,992)
Translation adjustments	–	–	–	–	–	(122)	(122)	–
As at 31st March, 2001	<u>281,570</u>	<u>22,811</u>	<u>58,355</u>	<u>53,701</u>	<u>301</u>	<u>(2,313)</u>	<u>414,425</u>	<u>81,716</u>
As at 1st April, 2001								
– as previously reported	281,570	22,811	58,355	53,701	301	(2,313)	414,425	–
– prior year adjustment (Note 2.b)	–	–	–	–	–	–	–	81,716
– as restated	281,570	22,811	58,355	53,701	301	(2,313)	414,425	81,716
Premium arising from issue of shares upon exercise of warrants (Note 30)	1	–	–	–	–	–	1	–
Repurchase of shares (Note 29)	(276)	307	–	–	–	–	31	–
Deficit on revaluation of long-term investments	–	–	–	(54,773)	–	–	(54,773)	–
Proposed dividends								
– interim dividend	–	–	–	–	–	–	–	6,390
– final dividend	–	–	–	–	–	–	–	2,840
Dividends paid	–	–	–	–	–	–	–	(88,106)
Translation adjustments	–	–	–	–	–	(373)	(373)	–
As at 31st March, 2002	<u>281,295</u>	<u>23,118</u>	<u>58,355</u>	<u>(1,072)</u>	<u>301</u>	<u>(2,686)</u>	<u>359,311</u>	<u>2,840</u>

(Amounts expressed in Hong Kong dollars unless otherwise stated)

32. RESERVES AND PROPOSED DIVIDENDS (Cont'd)

	Share premium \$'000	Capital redemption reserve \$'000	Contributed surplus \$'000	Total \$'000	Proposed dividends \$'000
VSC					
As at 1st April, 2000					
– as previously reported	254,768	2,842	53,986	311,596	–
– prior year adjustment (Note 2.b)	–	–	–	–	21,317
– as restated	254,768	2,842	53,986	311,596	21,317
Premium arising from issue of shares upon					
– exercise of warrants (Note 30)	45,478	–	–	45,478	–
– exercise of employee share options	310	–	–	310	–
Repurchase of shares (Note 29)	(18,986)	19,969	–	983	–
Proposed dividends					
– interim dividend	–	–	–	–	10,659
– distribution in specie of shares in iSteelAsia.com Limited	–	–	–	–	308,016
– final dividend	–	–	–	–	81,716
Dividends paid/settled	–	–	–	–	(339,992)
As at 31st March, 2001	<u>281,570</u>	<u>22,811</u>	<u>53,986</u>	<u>358,367</u>	<u>81,716</u>
As at 1st April, 2001					
– as previously reported	281,570	22,811	53,986	358,367	–
– prior year adjustment (Note 2.b)	–	–	–	–	81,716
– as restated	281,570	22,811	53,986	358,367	81,716
Premium arising from issue of shares upon exercise of warrants (Note 30)	1	–	–	1	–
Repurchase of shares (Note 29)	(276)	307	–	31	–
Proposed dividends					
– interim dividend	–	–	–	–	6,390
– final dividend	–	–	–	–	2,840
Dividends paid	–	–	–	–	(88,106)
As at 31st March, 2002	<u>281,295</u>	<u>23,118</u>	<u>53,986</u>	<u>358,399</u>	<u>2,840</u>

(Amounts expressed in Hong Kong dollars unless otherwise stated)

32. RESERVES AND PROPOSED DIVIDENDS (Cont'd)

Under the Companies Act 1981 of Bermuda, contributed surplus is distributable to shareholders subject to the condition that VSC cannot declare or pay a dividend, or make a distribution out of contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

VSC's reserves (excluding retained profit) as at 31st March, 2002 available for distribution to shareholders were represented by the contributed surplus of approximately \$53,986,000 (2001 – \$53,986,000).

33. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

- a. Reconciliation of profit before taxation to net cash (outflow) inflow from operating activities is as follows:

	2002 \$'000	2001 \$'000 (Restated – Note 2)
Profit before taxation	11,892	300,310
Interest income	(2,720)	(4,778)
Interest expense	7,908	11,732
Depreciation of property, plant and equipment	11,715	13,842
Amortisation of goodwill	924	24,877
Share of loss (profit) of associates	88	(89)
Gain on investments	(6,391)	(323,850)
(Gain) Loss on investment properties	(1,160)	33,630
Impairment loss on property, plant and equipment relating to the discontinued operations	–	9,701
Net (gain) loss on disposals of property, plant and equipment	(389)	125
Decrease in inventories	24,269	182,036
Increase in gross amount due from customers for installation contract work	(975)	(9,899)
Decrease (Increase) in prepayments, deposits and other receivables	469	(465)
Decrease (Increase) in advances to suppliers	3,396	(2,574)
Increase in accounts receivable	(115,016)	(19,962)
Decrease (Increase) in loans receivable	17,566	(17,577)
Increase (Decrease) in accounts and bills payable	43,226	(54,055)
Decrease in receipts in advance	(2,840)	(20,951)
Increase in accrued liabilities and other payables	2,487	12,340
Net cash (outflow) inflow from operating activities	(5,551)	134,393

(Amounts expressed in Hong Kong dollars unless otherwise stated)

33. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

- b. During the year ended 31st March, 2002, the VSC Group acquired a business for cash of approximately \$19,722,000. Details of the assets acquired as at the date of acquisition are:

	\$'000
Property, plant and equipment	8,851
Inventories	3,189
Deposits	284
Total assets acquired	12,324
Goodwill on acquisition	7,398
Cash consideration for the acquisition	<u>19,722</u>

- c. Analysis of changes in financing is:

	Share capital and share premium \$'000	Short-term bank loans \$'000	Minority interests \$'000	Total \$'000
1st April, 2000	288,856	4,400	4,289	297,545
Issue of shares upon exercise of warrants and employee share options	48,212	–	–	48,212
Repurchase of shares	(19,969)	–	–	(19,969)
New short-term bank loans	–	9,280	–	9,280
Repayment of short-term bank loans	–	(4,400)	–	(4,400)
Share of loss by minority shareholders of subsidiaries	–	–	(1,059)	(1,059)
Dividends paid to a minority shareholder of a subsidiary	–	–	(309)	(309)
31st March, 2001	317,099	9,280	2,921	329,300
Issue of shares upon exercise of warrants	1	–	–	1
Repurchase of shares	(307)	–	–	(307)
New short-term bank loans	–	56,700	–	56,700
Repayment of short-term bank loans	–	(28,180)	–	(28,180)
Share of profit by minority shareholders of subsidiaries	–	–	1,022	1,022
Dividends paid to a minority shareholder of a subsidiary	–	–	(315)	(315)
Cash contribution by minority shareholders of a subsidiary	–	–	945	945
31st March, 2002	<u>316,793</u>	<u>37,800</u>	<u>4,573</u>	<u>359,166</u>

- d. Analysis of cash and cash equivalents is:

	2002 \$'000	2001 \$'000
Cash and bank deposits	48,554	50,249
Trust receipts bank loans	(225,182)	(89,490)
Short-term bank loans	–	(8,000)
	<u>(176,628)</u>	<u>(47,241)</u>

(Amounts expressed in Hong Kong dollars unless otherwise stated)

34. SEGMENT INFORMATION

The primary segment is defined by major product and operational unit, while the secondary segment is defined by destination of shipment of merchandise.

a. Primary segment

The VSC Group is organised into three major product and operational units – (i) trading and stockholding of construction materials including steel products, sanitary ware, kitchen cabinets, and the installation work of kitchen cabinets, (ii) manufacturing and trading of industrial products including rolled steel flat products, enclosure systems, engineering plastic resins and injection moulding machines, and (iii) investment holding including rental income from property investment and interest income from finance business. Analysis by business segment is as follows:

	2002		
	Trading and stockholding of construction materials \$'000	Manufacturing and trading of industrial products \$'000	Investment holding \$'000
			Total \$'000
Turnover			
Sales to external customers			
– continuing operations	1,735,081	383,496	6,535
– discontinued operations	12,733	–	–
	<u>1,747,814</u>	<u>383,496</u>	<u>6,535</u>
Operating results			
Segment results			
– continuing operations	32,732	37,316	(13,479)
– discontinued operations	(3,842)	–	–
	<u>28,890</u>	<u>37,316</u>	<u>(13,479)</u>
Unallocated corporate expenses			(43,110)
Profit from operations			9,617
Gain on investments			6,391
Gain on investment properties			1,160
Interest income			2,720
Interest expense			(7,908)
Share of loss of associates			(88)
Taxation			(760)
Profit after taxation but before minority interests			<u>11,132</u>
Other information			
Assets	<u>699,756</u>	<u>229,794</u>	<u>56,636</u>
Liabilities	<u>(427,367)</u>	<u>(28,949)</u>	<u>(1,987)</u>
Capital expenditures	<u>19,563</u>	<u>42,457</u>	<u>–</u>
Depreciation and amortisation	<u>7,580</u>	<u>4,690</u>	<u>369</u>

(Amounts expressed in Hong Kong dollars unless otherwise stated)

34. SEGMENT INFORMATION (Cont'd)

a. Primary segment (Cont'd)

	2001			
	Trading and stockholding of construction materials \$'000	Manufacturing and trading of industrial products \$'000	Investment holding \$'000	Total \$'000
Turnover				
Sales to external customers				
– continuing operations	1,821,010	513,293	5,984	2,340,287
– discontinued operations	36,164	–	–	36,164
	<u>1,857,174</u>	<u>513,293</u>	<u>5,984</u>	<u>2,376,451</u>
Operating results				
Segment results				
– continuing operations	83,975	44,208	(15,256)	112,927
– discontinued operations	(48,495)	–	–	(48,495)
	<u>35,480</u>	<u>44,208</u>	<u>(15,256)</u>	<u>64,432</u>
Unallocated corporate expenses				<u>(47,477)</u>
Profit from operations				16,955
Gain on investments				323,850
Loss on investment properties				(33,630)
Interest income				4,778
Interest expense				(11,732)
Share of profit of associates				89
Taxation				<u>(15,533)</u>
Profit after taxation but before minority interests				<u>284,777</u>
Other information				
Assets	<u>647,532</u>	<u>200,554</u>	<u>73,328</u>	<u>921,414</u>
Liabilities	<u>(232,201)</u>	<u>(26,637)</u>	<u>(2,897)</u>	<u>(261,735)</u>
Capital expenditures	<u>9,835</u>	<u>977</u>	<u>–</u>	<u>10,812</u>
Depreciation and amortisation	<u>32,774</u>	<u>5,336</u>	<u>609</u>	<u>38,719</u>
Provision for impairment in value of property, plant and equipment	<u>9,701</u>	<u>–</u>	<u>–</u>	<u>9,701</u>

(Amounts expressed in Hong Kong dollars unless otherwise stated)

34. SEGMENT INFORMATION (Cont'd)

b. Secondary segment

The VSC Group's activities are conducted predominantly in Hong Kong and Mainland China. Analysis by geographical segment is as follows:

	Hong Kong \$'000	2002 Mainland China \$'000	Total \$'000
Turnover			
– continuing operations	1,086,908	1,038,204	2,125,112
– discontinued operations	12,733	–	12,733
	<u>1,099,641</u>	<u>1,038,204</u>	<u>2,137,845</u>
Operating results			
– continuing operations	16,999	39,570	56,569
– discontinued operations	(3,842)	–	(3,842)
	<u>13,157</u>	<u>39,570</u>	52,727
Unallocated corporate expenses			<u>(43,110)</u>
Profit from operations			<u>9,617</u>
Assets	<u>637,601</u>	<u>348,585</u>	<u>986,186</u>
Capital expenditures	<u>18,758</u>	<u>43,262</u>	<u>62,020</u>

(Amounts expressed in Hong Kong dollars unless otherwise stated)

34. SEGMENT INFORMATION (Cont'd)

b. Secondary segment (Cont'd)

	Hong Kong \$'000	2001 Mainland China \$'000	Total \$'000
Turnover			
– continuing operations	1,351,097	989,190	2,340,287
– discontinued operations	36,164	–	36,164
	<u>1,387,261</u>	<u>989,190</u>	<u>2,376,451</u>
Operating results			
– continuing operations	67,306	45,621	112,927
– discontinued operations	(48,495)	–	(48,495)
	<u>18,811</u>	<u>45,621</u>	<u>64,432</u>
Unallocated corporate expenses			<u>(47,477)</u>
Profit from operations			<u>16,955</u>
Assets	<u>629,666</u>	<u>291,748</u>	<u>921,414</u>
Capital expenditures	<u>9,798</u>	<u>1,014</u>	<u>10,812</u>

35. COMMITMENTS AND CONTINGENT LIABILITIES

a. Capital commitments

	2002 \$'000	2001 \$'000
Authorised and contracted for		
– purchase of machinery and equipment	6,365	9,320
Authorised and not contracted for		
– purchase of machinery and equipment	<u>949</u>	<u>24,009</u>
	<u>7,314</u>	<u>33,329</u>

(Amounts expressed in Hong Kong dollars unless otherwise stated)

35. COMMITMENTS AND CONTINGENT LIABILITIES (Cont'd)**b. Operating lease commitments**

Total commitments payable under various non-cancellable operating lease agreements in respect of rented premises and motor vehicles are analysed as follows:

	2002 \$'000	2001 \$'000
Amounts payable		
– within one year	10,589	9,918
– between two and five years	14,018	7,443
	24,607	17,361

c. Contingent liabilities

Contingent liabilities not provided for in the financial statements are:

	Consolidated		Company	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Guarantee in lieu of rental deposit of a premise	2,744	2,744	–	–
Performance bonds	13,412	1,300	–	–
Guarantee relating to a bank loan granted to an investee company	2,340	2,340	–	–
Guarantees provided by VSC in respect of banking facilities of its subsidiaries	–	–	1,303,130	1,245,948
	18,496	6,384	1,303,130	1,245,948

(Amounts expressed in Hong Kong dollars unless otherwise stated)

36. PENSION SCHEMES

The VSC Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the “MPF Scheme”), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the VSC Group and its employees make monthly contributions to the scheme at 5% of the employees’ earnings as defined under the Mandatory Provident Fund legislation. Both the VSC Group’s and the employees’ contributions are subject to a cap of \$1,000 per month and thereafter contributions are voluntary.

As stipulated by rules and regulations in Mainland China, the VSC Group contributes to state-sponsored retirement plans for its employees in Mainland China. The VSC Group contributes approximately 14% to 20% of the basic salaries of its employees, and has no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees.

During the year ended 31st March, 2002, the aggregate amount of the VSC Group’s contributions to the aforementioned pension schemes was approximately \$2,163,000 (2001 – \$1,771,000).

37. BANKING FACILITIES AND PLEDGE OF ASSETS

As at 31st March, 2002, the VSC Group had aggregate banking facilities of approximately \$1,332,860,000 (2001 – \$1,548,355,000) for overdrafts, loans, and trade financing. These facilities were secured by:

- (i) the VSC Group’s inventories held under trust receipts bank loan arrangements (see Notes 21 and 26); and
- (ii) guarantees provided by VSC.

38. SUBSEQUENT EVENT

On 14th May, 2002, the VSC Group agreed to purchase 22,976,000 shares of iSteelAsia.com Limited, a company whose shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM”) for approximately \$2,298,000, which was settled by way of transfer of 11,488,000 shares of iMerchants Limited, a company whose shares are also listed on the GEM. As a consequence, the VSC Group has increased its equity interest in iSteelAsia.com Limited to approximately 19.2%, and has disposed of its entire equity interest in iMerchants Limited.