

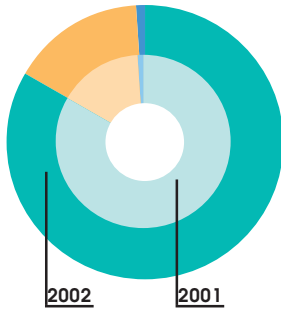


VAN SHUNG CHONG HOLDINGS LIMITED
萬 順 昌 集 團 有 限 公 司



I N T E R I M | 2 0 0 2 / 0 3 | 中 期 報 告
R E P O R T

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



Construction materials
2002: 80.19, 2001: 80.96

Industrial products
2002: 19.65, 2001: 18.70

Investment holding
2002: 0.16, 2001: 0.34

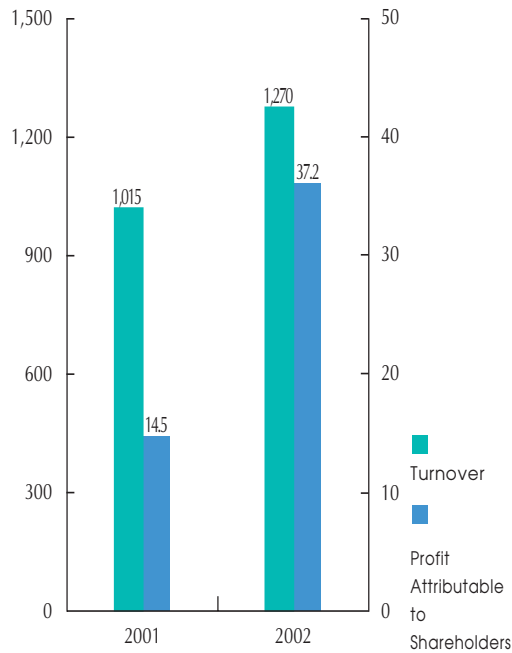
Van Shung Chong Holdings Limited
Financial Cockpit Chart

Turnover & Profit
Attributable to Shareholders

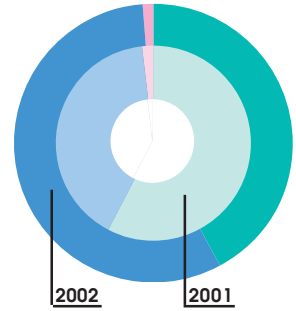
for the 6 months ended 30 September

HK\$ million
Turnover

HK\$ million
Profit
Attributable to
Shareholders



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

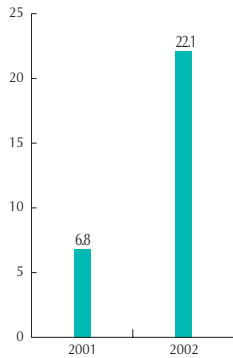


Construction materials
2002: 42.07, 2001: 57.63

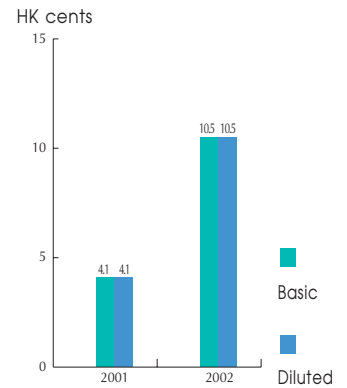
Industrial products
2002: 56.70, 2001: 40.50

Investment holding
2002: 1.23, 2001: 1.87

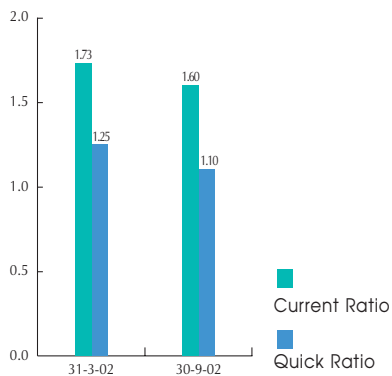
Interest Cover for Operations
for the 6 months ended
30 September



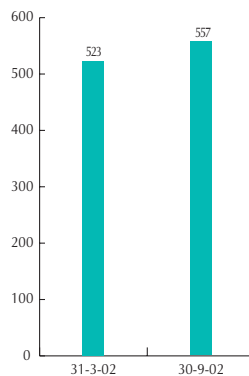
Earnings Per Share
for the 6 months ended
30 September



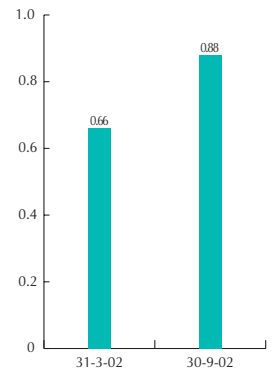
Liquidity Ratios
as at



Shareholders' Equity
as at
HK\$ million



Gearing Ratio
as at



UNAUDITED INTERIM RESULTS

The Board of Directors of Van Shung Chong Holdings Limited (“VSC”) hereby announces the unaudited condensed interim accounts of VSC and its subsidiaries (the “VSC Group”) as at and for the six months ended 30 September 2002, together with comparative figures, as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 September 2002

	Note	Six months ended 30 September	
		2002 HK\$'000 (Unaudited)	2001 HK\$'000 (Unaudited)
Turnover	3	1,270,354	1,015,069
Representing –			
Continuing operations		1,270,354	1,003,521
Discontinuing operations		–	11,548
Cost of sales		(1,160,331)	(932,292)
Gross profit		110,023	82,777
Selling and distribution expenses		(8,816)	(8,701)
General and administrative expenses		(60,496)	(51,106)
Operating profit	4	40,711	22,970
Representing –			
Continuing operations		40,711	24,992
Discontinuing operations		–	(2,022)
Gain (Loss) on investments	5	2,736	(517)
Interest income		2,272	1,444
Interest expense		(4,114)	(4,824)
Share of loss of associates		–	(89)
Profit before taxation		41,605	18,984
Taxation	6	(690)	(3,998)
Profit after taxation but before minority interests		40,915	14,986
Minority interests		(3,666)	(458)
Profit attributable to shareholders		37,249	14,528
Dividends	7	–	6,390
Earnings per share	8		
– Basic		10.5 cents	4.1 cents
– Diluted		10.5 cents	4.1 cents

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 September 2002

	Note	As at 30 September 2002 HK\$'000 (Unaudited)	As at 31 March 2002 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	9	119,902	123,248
Investment properties		32,500	32,500
Investment in associates		2	2
Long-term investments	10	31,648	32,561
Goodwill		5,549	6,474
Total non-current assets		189,601	194,785
Current assets			
Inventories		315,945	217,775
Gross amount due from customers for installation contract work		10,786	1,891
Prepayments, deposits and other receivables		65,140	41,444
Accounts receivable	11	560,792	470,894
Loans receivable		7,943	10,843
Pledged bank deposits		–	3,021
Cash and bank deposits		48,925	45,533
Total current assets		1,009,531	791,401
Current liabilities			
Short-term bank borrowings	12	356,764	262,982
Accounts and bills payable	13	225,936	152,571
Receipts in advance		14,798	6,075
Accrued liabilities		29,712	33,980
Taxation payable		4,644	2,445
Total current liabilities		631,854	458,053
Net current assets		377,677	333,348
Total assets less current liabilities		567,278	528,133
Non-current liability			
Deferred taxation		250	250
Minority interests		9,931	4,573
Net assets		557,097	523,310
Represented by-			
Share capital	14	35,498	35,498
Reserves		521,599	484,972
Proposed dividend		–	2,840
Shareholders' equity		557,097	523,310

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 September 2002 (Unaudited)

	Reserves								
	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Statutory reserves HK\$'000	Capital reserve HK\$'000	Asset revaluation reserve HK\$'000	Cumulative translation adjustments HK\$'000	Retained profit HK\$'000	Total HK\$'000
As at 1 April 2002	35,498	281,295	23,118	301	58,355	(1,072)	(2,686)	128,501	523,310
Dividend	-	-	-	-	-	-	-	(2,840)	(2,840)
Release of asset revaluation reserve upon disposal of a long-term investment	-	-	-	-	-	563	-	-	563
Deficit on revaluation of a long-term investment	-	-	-	-	-	(1,193)	-	-	(1,193)
Profit attributable to shareholders	-	-	-	-	-	-	-	37,249	37,249
Translation adjustments	-	-	-	-	-	-	8	-	8
As at 30 September 2002	35,498	281,295	23,118	301	58,355	(1,702)	(2,678)	162,910	557,097

For the six months ended 30 September 2001 (Unaudited)

As at 1 April 2001	35,529	281,570	22,811	301	58,355	53,701	(2,313)	206,804	656,758
Dividend	-	-	-	-	-	-	-	(81,716)	(81,716)
Issuance of shares upon exercise of warrants	-	1	-	-	-	-	-	-	1
Repurchase of shares	(31)	(276)	307	-	-	-	-	(307)	(307)
Deficit on revaluation of long-term investments	-	-	-	-	-	(16,680)	-	-	(16,680)
Profit attributable to shareholders	-	-	-	-	-	-	-	14,528	14,528
Translation adjustments	-	-	-	-	-	-	(378)	-	(378)
As at 30 September 2001	35,498	281,295	23,118	301	58,355	37,021	(2,691)	139,309	572,206

Represented by –

Retained profit as at 30 September 2001	132,919
Proposed interim dividend	6,390

139,309

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 30 September 2002*

	Six months ended 30 September	
	2002 HK\$'000 (Unaudited)	2001 HK\$'000 (Unaudited)
Net cash (outflow) inflow from operating activities	(10,992)	69,418
Net cash outflow from investing activities	(1,698)	(35,284)
Net cash inflow (outflow) from financing activities	13,027	(41,817)
Increase (Decrease) in cash and cash equivalents	337	(7,683)
Cash and cash equivalents at 1 April	48,554	50,249
Effect of foreign exchange rate changes	34	(751)
Cash and cash equivalents at 30 September	48,925	41,815
Analysis of cash and cash equivalents:		
– Cash and bank deposits	48,925	41,815

NOTES TO THE CONDENSED CONSOLIDATED INTERIM ACCOUNTS**1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES**

The unaudited condensed interim accounts of the VSC Group as at and for the six months ended 30 September 2002 have been prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) Number 25 (Revised) – Interim financial reporting issued by the Hong Kong Society of Accountants and the disclosure requirements of the Rules Governing the Listing of Securities (the “Listing Rules”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The unaudited condensed interim accounts should be read in conjunction with the annual accounts of the VSC Group for the year ended 31 March 2002.

The accounting policies and method of computation used in the preparation of the unaudited condensed interim accounts as at and for the six months ended 30 September 2002 are consistent with those used in the annual accounts as at and for the year ended 31 March 2002, except for the adoption of the new/revised SSAPs issued by the Hong Kong Society of Accountants as described in Note 2 below.

2. CHANGES IN ACCOUNTING POLICIES

Effective from 1 April 2002, the VSC Group has adopted the following changes in accounting policies:

SSAP 1 (Revised) :	Presentation of financial statements
SSAP 11 (Revised) :	Foreign currency translation
SSAP 15 (Revised) :	Cash flow statements
SSAP 25 (Revised) :	Interim financial reporting
SSAP 34 :	Employee benefits

Except for certain presentational changes which have been made upon the adoption of SSAP 1 (Revised) – Presentation of financial statements and SSAP 15 (Revised) – Cash flow statements, the adoption of the above new/revised SSAPs had no material effect on the unaudited condensed interim accounts.

3. SEGMENT INFORMATION

The business segment is defined by major product and operational unit, while the geographical segment is defined by destination of shipment of merchandise. The VSC Group's results by business segment and geographical segment are analysed as follows:

a. Primary reporting format – business segments

	Trading and stockholding of construction materials HK\$'000	Manufacturing and trading of industrial products HK\$'000	Investment holding HK\$'000	Total HK\$'000
<i>For the six months ended 30 September 2002</i>				
Turnover				
– continuing operations	1,018,716	249,601	2,037	1,270,354
Segment results				
– continuing operations	27,121	36,556	794	64,471
Unallocated corporate expenses				(23,760)
Operating profit				40,711
Gain on investments				2,736
Interest income				2,272
Interest expense				(4,114)
Taxation				(690)
Minority interests				(3,666)
Profit attributable to shareholders				37,249
<i>For the six months ended 30 September 2001</i>				
Turnover				
– continuing operations	810,305	189,797	3,419	1,003,521
– discontinuing operations	11,548	–	–	11,548
	821,853	189,797	3,419	1,015,069
Segment results				
– continuing operations	27,194	17,689	816	45,699
– discontinuing operations	(2,022)	–	–	(2,022)
	25,172	17,689	816	43,677
Unallocated corporate expenses				(20,707)
Operating profit				22,970
Loss on investments				(517)
Interest income				1,444
Interest expense				(4,824)
Share of loss of associates				(89)
Taxation				(3,998)
Minority interests				(458)
Profit attributable to shareholders				14,528

3. SEGMENT INFORMATION (Continued)

b. Secondary reporting format – geographical segments

	Hong Kong HK\$'000	Mainland China HK\$'000	Total HK\$'000
<i>For the six months ended 30 September 2002</i>			
Turnover			
– continuing operations	640,824	629,530	1,270,354
Segment results			
– continuing operations	15,675	48,796	64,471
Unallocated corporate expenses			(23,760)
Operating profit			40,711
<i>For the six months ended 30 September 2001*</i>			
Turnover			
– continuing operations	524,810	478,711	1,003,521
– discontinuing operations	11,548	–	11,548
	536,358	478,711	1,015,069
Segment results			
– continuing operations	25,361	20,338	45,699
– discontinuing operations	(2,022)	–	(2,022)
	23,339	20,338	43,677
Unallocated corporate expenses			(20,707)
Operating profit			22,970

* Figures have been restated to comply with current year's classification.

4. OPERATING PROFIT

Operating profit is stated after charging (crediting) the following:

	Six months ended 30 September	
	2002 HK\$'000	2001 HK\$'000
Depreciation of property, plant and equipment	8,117	7,023
Amortisation of goodwill	925	–
(Gain) Loss on disposal of property, plant and equipment	(80)	66

5. GAIN (LOSS) ON INVESTMENTS

Gain (Loss) on investments consisted of:

	Six months ended 30 September	
	2002 HK\$'000	2001 HK\$'000
Loss on disposal of long-term investment	(287)	–
Return from joint ventures	3,023	–
Impairment loss on investments	–	(517)
	2,736	(517)

6. TAXATION

Taxation consisted of:

	Six months ended 30 September	
	2002 HK\$'000	2001 HK\$'000
Hong Kong profits tax		
– Current year	4,034	3,992
– Write-back of provision in prior years	(4,289)	–
Mainland China enterprise income tax	945	6
	690	3,998

7. DIVIDENDS

The directors do not recommend the payment of an interim dividend for the six months ended 30 September 2002 (six months ended 30 September 2001 – interim dividends of HK\$0.018 per ordinary share).

8. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 September 2002 was based on the unaudited consolidated profit attributable to shareholders of approximately HK\$37,249,000 (six months ended 30 September 2001 – HK\$14,528,000) and on the weighted average number of approximately 354,979,000 shares (six months ended 30 September 2001 – 355,282,000 shares) in issue during the period.

The calculation of diluted earnings per share for the six months ended 30 September 2002 was based on the unaudited consolidated profit attributable to shareholders of approximately HK\$37,249,000 (six months ended 30 September 2001 – HK\$14,528,000) and the diluted weighted average number of approximately 355,201,000 shares (six months ended 30 September 2001 – 356,929,000 shares) in issue during the period. It has been calculated after taking into account all dilutive instruments outstanding at 30 September 2002. The effect of the dilutive potential ordinary shares resulting from the exercise of the outstanding warrants and employee share options on the weighted average number of shares in issue during the period was approximately 222,000 shares (six months ended 30 September 2001 – 1,647,000 shares), which were deemed to have been issued at no consideration if all outstanding warrants and employee share options had been exercised on the date when the warrants and employee share options were granted.

9. PROPERTY, PLANT AND EQUIPMENT

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

	As at 30 September 2002 HK\$'000	As at 31 March 2002 HK\$'000
Land and buildings	62,366	61,904
Furniture and equipment	25,121	26,774
Machinery	28,973	30,811
Motor vehicles	3,442	3,759
	119,902	123,248

10. LONG-TERM INVESTMENTS

Long-term investments consisted of:

	As at 30 September 2002 HK\$'000	As at 31 March 2002 HK\$'000
Investment in shares listed in Hong Kong		
– At cost	27,831	42,722
– Change in fair value	(1,702)	(15,680)
	26,129	27,042
Unlisted investments		
– At cost	5,616	5,616
– Accumulated impairment loss	(97)	(97)
	5,519	5,519
	31,648	32,561

As at 30 September 2002, the investment in shares listed in Hong Kong includes approximately 19.2% (as at 31 March 2002 – 17.8%) equity interests in iSteelAsia.com Limited, a company incorporated in Bermuda whose shares are listed on the Growth Enterprise Market of the Stock Exchange. These investments are stated in the balance sheet at the quoted market value at 30 September 2002.

The underlying value of long-term investments is, in the opinion of VSC's Directors, not less than the carrying value at 30 September 2002.

11. ACCOUNTS RECEIVABLE

A major portion of the VSC Group's sales is made on an open account basis, with credit periods ranging from 30 to 90 days. Credit evaluations of customers are performed periodically to minimise any credit risk associated with customers. Ageing analysis (based on ageing date) of accounts receivable was as follows:

	As at 30 September 2002 HK\$'000	As at 31 March 2002 HK\$'000
0 – 60 days	449,433	358,439
61 – 120 days	98,358	93,837
121 – 180 days	7,389	17,281
181 – 365 days	7,427	3,616
Over 365 days	13,237	19,036
	575,844	492,209
Less: Provision for bad and doubtful debts	(15,052)	(21,315)
	560,792	470,894

12. SHORT-TERM BANK BORROWINGS

Short-term bank borrowings consisted of:

	As at 30 September 2002 HK\$'000	As at 31 March 2002 HK\$'000
Trust receipts bank loans	304,789	225,182
Short-term bank loans	51,975	37,800
	356,764	262,982

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

13. ACCOUNTS AND BILLS PAYABLE

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

	As at 30 September 2002 HK\$'000	As at 31 March 2002 HK\$'000
0 – 60 days	212,493	145,288
61 – 120 days	4,638	1,920
121 – 180 days	3,144	1,761
181 – 365 days	2,868	1,000
Over 365 days	2,793	2,602
	225,936	152,571

14. SHARE CAPITAL

	As at 30 September 2002 and 31 March 2002	
	Number of shares '000	Nominal value HK\$'000
Authorised – ordinary shares of HK\$0.10 each	1,000,000	100,000
Issued and fully paid – ordinary shares of HK\$0.10 each	354,979	35,498

15. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 September	
	2002 HK\$'000	2001 HK\$'000
Metal Logistics Company Limited (i)		
– sales made by the VSC Group	113,818	76,404
– commission for procurement services charged to the VSC Group	1,117	743
– administrative service fees earned by the VSC Group	90	90
– interest earned by the VSC Group on overdue balances	2,073	481
iSteelAsia (Hong Kong) Limited (i)		
– administrative services fees earned by the VSC Group	90	90
– rental earned by the VSC Group	300	510
– rates, management fee and utility charges earned by the VSC Group	44	115
EC.com Limited (ii)		
– rental earned by the VSC Group	506	506

Note –

- (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 19.2% equity interest as at 30 September 2002.
- (ii) EC.com Limited is beneficially owned and controlled by Mr. Tsang Kwok Tai, Moses, a former non-executive director of VSC who resigned on 17 August 2002.
- b. The amounts due from related companies arising from transactions described in Note 15.a are included in accounts receivable. Details of these balances are as follows:

	As at 30 September 2002 HK\$'000	As at 31 March 2002 HK\$'000
Metal Logistics Company Limited (i)	154,529	137,711

Note –

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

16. SUBSEQUENT EVENT

On 5 November 2002, VSC announced a proposed conditional voluntary cash offer to repurchase up to 53,222,263 shares of VSC (representing approximately 14.6% of the total issued share capital of VSC at the time of offer) at an offer price of HK\$0.98 per share payable in cash. Qualifying shareholders are assured of being able, if they so wish, to sell to VSC 33.3% (subject to adjustment) of the shares they own as at the date of closing of the offer on 2 January 2003. Assuming that the offer is to be accepted in full, the total consideration for the offer will amount to approximately HK\$52.2 million.

RESULTS

The VSC Group's turnover for the six months ended 30 September 2002 was HK\$1,270 million, an increase of 25% compared with the same period in 2001. Gross profit and gross margin were increased by 33% and 6%, respectively. Profit attributable to shareholders was HK\$37.2 million, an increase of 156% and 268% as compared to the six months ended 30 September 2001 and the year ended 31 March 2002, respectively.

Basic earnings per share increased by 156% to 10.5 cents due to the increase in profit attributable to shareholders. No interim dividend per share was declared for the period (2001 – 1.8 cents per share representing dividend payout of 44%) as an offer had recently been made to all shareholders to purchase 33.3% (subject to adjustment) of their shares in VSC at HK\$0.98 per share. Although the management considered the share buyback, if approved by the shareholders and fully accepted by the qualifying shareholders, should not have any material adverse impact to the VSC Group's financial position, the offer could be perceived as a special distribution since the offer price already represented a premium to the prevailing market share price of VSC. As such, the management believed that the VSC Group remains committed to its philosophy to always explore ways to enhance the return to reward its shareholders.

FINANCIAL ANALYSIS

The VSC Group continued to monitor and maintain its liquidity and financial position in a healthy manner. As compared to 31 March 2002, both current ratio and quick ratio have slightly decreased but were still kept at a healthy level of 1.60 and 1.10. In view of the current low interest rate environment coupled with a relatively weak equity market, the VSC Group had cautiously increased its bank borrowings as a means to finance its business expansion and capital need. As such, the gearing ratio (bank borrowings and bills payable divided by shareholders' equity) was increased from 0.66 to 0.88. The VSC Group's trade financing remained primarily supported by trade facilities from banks. As in prior years, these lines were secured by the VSC Group's inventories held under short-term trust receipts bank loan arrangement and corporate guarantees by VSC. Interest costs of the import bank loans are levied on US dollar LIBOR/SIBOR basis with very competitive margin. With its focus on increasing business expansion in Mainland China, the VSC Group had obtained 25 million Renminbi ("RMB") banking facilities. As a way to hedge against the currency risk, the VSC Group had adopted a strategy by aligning the currency of its financing need with its income. Thus, the VSC Group will continue to solicit additional RMB financing from both foreign and domestic banks to support its businesses and operations in Mainland China. As stated above, cash flow management is a critical part of the VSC Group's financing activities. The VSC Group will also explore opportunities to secure some medium to longer-term capital financing from banks to match its capital funding needs for its internal expansion and external acquisitions in the coming 3 to 5 years.

CHARGES ON ASSETS

The VSC Group had certain inventories held under trust receipts bank loans.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The VSC Group's businesses were primarily transacted in Hong Kong dollar, US dollar, RMB and Euro dollar. Despite some recent market discussion on the discontinuance of the current peg system in Hong Kong to help combating the economic recession, the Hong Kong SAR Government had indicated its strong commitment to maintain the peg system. The VSC Group's exposure in US dollar should thus still be minimal. The VSC Group will however closely monitor such foreign exchange exposure arising from its trust receipts bank loans and uncovered inventory for committed sales contracts, which are mainly denominated in US dollar. The VSC Group's investments and properties in Mainland China amounted to approximately HK\$62 million as at 30 September 2002. As stated above, the VSC Group is aiming to obtain more RMB financing to further mitigate its currency exposure on its domestic operations in Mainland China. Transaction values involving Euro dollar were relatively insignificant and hedging by forward contracts had been used as the main tool to reduce such foreign exchange exposure.

CONTINGENT LIABILITIES

As at 30 September 2002, the VSC Group had contingent liabilities in the form of guarantees of approximately HK\$18.6 million.

REVIEW OF OPERATIONS

(1) Construction materials

The VSC Group's construction materials businesses comprise distribution of steel and building products primarily to developers and contractors for construction works. Although the local economy continued to depress, the construction materials businesses experienced a moderate growth in both turnover and operating profit. Turnover for the period increased by 24% while operating profit for the period increased by 8% over the same period in 2001.

Turnover of the **steel department** increased by 18% as compared to the corresponding period of last year but the gross profit declined by 12%. Benefiting from various ongoing public and infrastructure works, the piling business recorded a 213% increase in the tonnage delivered. The decrease in gross profit was mainly attributable to several low-price rebars contracts signed during the fierce price war experienced by the VSC Group last year. The VSC Group is encouraged to report that such fierce pricing cutting activities had not continued for an extended period of time.

Under the overall unfavourable market conditions in Hong Kong, the steel department continued its effort in reducing operating cost and expanding revenue base. The steel department focused to streamline the operation to achieve a higher efficiency, optimise stock level to reduce inventory holding cost, diversify product range to enhance revenue and develop new and reliable suppliers to mitigate risk. Cross Functional Teams were set up for supply chain management and accounts receivable management. Vigorous cost saving measures were adopted. As a result to all these efforts, less inventory in warehouse, lower total cost of ownership of holding inventory, shorter days of receivable and reduced operating logistic costs were recorded. The department had also successfully developed reliable and cost effective sources of supply from nearby countries to enhance its competitiveness, provide wider range of products and increase market share.

Redressing a number of problems like high staff turnover, lack of awareness by customers and poor technical support from supplier in last year, the soil nails and couplers business achieved breakeven in the current period after implementing measures like outsourcing to new subcontractor, restructuring of sales force and installation of Oracle Enterprise Resources Planning ("ERP") system. The steel department will continue its effort to improve customer service quality through more efficient processes in both hardwares and softwares, allying with more reliable subcontractors, and deepening market penetration through more marketing effort.

The **building products department** is making progress to recover from its weak performance. Turnover increased by 403% to HK\$86 million and operating loss narrowed to HK\$0.7 million compared to loss of HK\$2.8 million last year. Harvesting from the three major projects, namely Sorrento, Kowloon Station, Coastal Skyline, Tung Chung Station and Bellagio, Sham Tseng, the kitchen cabinet division contributed over 70% to the department's turnover. The three projects are expected to be completed in a few months and will continue to contribute profit to the department.

The sanitary ware division was still adversely hit by the declining market and keen competition which resulted in a 29% decrease in turnover. The division had spent tremendous efforts in reducing inventory level and centralising storage facilities. Inventory was reduced from HK\$5.4 million in September 2001 to HK\$3.1 million in September 2002 and as a result, storage expense reduced by approximately 51% over the same period last year.

While there is keen competition in the project sales market, the VSC Group during the period had diversified into the retail side of the business to complement its project business. A retail shop/showroom, **Leisure Plus**, was opened in April 2002 in Hong Kong to arouse market awareness, enhance company image and offer a channel for customers to experience the actual products and services. Performance of Leisure Plus was encouraging. Situated in a prime yet cost-efficient location and complemented by a target customers oriented marketing programme, the outlet had attracted enough business to achieve breakeven in its first 6 months' operation. Besides generating profit, the showroom had brought tremendous synergy effect on project sales of kitchen cabinets, sanitary ware and tiles. With the support of the suppliers, the department is planning to systematically establish new retail shops and showrooms to expand its presence in Macau and strategic target cities in Mainland China.

REVIEW OF OPERATIONS (Continued)**(2) Industrial products**

The VSC Group's industrial products businesses include processed rolled steel products of its Dongguan coil centre, its Shenzhen factory for manufacturing of enclosure systems, as well as engineering plastic resins and injection moulding machines. For the period under review, turnover and operating profit both increased significantly by 32% and 107%, respectively.

Dongguan coil centre achieved consistently encouraging result for the period by recording 32% and 140% increases in turnover and gross profit, respectively. Through effective supply chain management and continuous production process improvement, Dongguan coil centre had managed to increase its production capacity to address the rising demands from customers. Appearing to be unaffected by the global economic recession, the major customers of Dongguan coil centre whom are engaging in mass production of computers and visual/audio equipments are still continuing to feed large-volume orders to the coil centre. The increases in revenue were further fuelled by the rise of selling price of steel products as a result of the imposition of punitive tariffs by US government in the first quarter of 2002. To further diversify the VSC Group's revenue stream by exploring the market growth potentials, the VSC Group decided in July 2002 to build a new coil centre in Tianjin after careful study of the market. Total capital investments for land, factory construction and machineries were estimated to be approximately HK\$25 million. Construction of the factory is in smooth progress and the new coil centre is expected to start production by March 2003, addressing the high growth potential of the northeast China market.

With the continued improvement in production capability and efficiency, **VJY enclosure systems** achieved nearly HK\$20 million turnover in the six months ended 30 September 2002 as compared to the turnover of around HK\$5.6 million for the first four months of operation in last year. Capitalising on the strategic partnership developed with its major customers such as Huawei, Zhongxing and Emerson, VJY has secured sufficient business volume to attain a breakeven position. The operations will be further streamlined with the use of Total Cycle Time ("TCT") approach to shorten production cycle time and cost control measures will be implemented to improve the profitability.

In the period under review, the **plastics and machinery department** was still adversely affected by the weak US economy. For the plastics division, operating profit was down by 31% mainly due to the loss of distributorship of high profit margin products of GE Plastics. However, the division had been actively developing other brands of plastic resins such as Mitsubishi, UMG and Samsung, resulting in 9% increase in turnover. The division was successful in developing new customers to broaden its customer base. Number of customers from the target industries such as home appliances, electrical and electronics, lightings, and office automation grew steadily in the past six months. The new domestic sales outlet in Mainland China recorded satisfactory results, contributing about 20% to the division's turnover. The division will continue to explore ways to expand in the domestic market in Mainland China. The machinery division's turnover remained similar to last year with more sales of spare parts which had a much lower margin resulting in the decrease in operating profit by 56%. Revenue from commission of new machineries sold was significantly less because many customers held back on capital investment under the poor economy. The machinery division is actively developing new products and will work closely with the plastics division to look for further business opportunities.

(3) Other investments and associated companies

On 14 May 2002, the VSC Group increased its equity interest in its investment, **iSteelAsia.com Limited ("ISA")**, from 17.8% to 19.2% through share swapping and disposing of its entire equity interest in iMerchants Limited. The VSC Group is delighted to note that ISA had achieved a turnaround in financial results. For the 6-month period under review, turnover increased 92% to HK\$343 million as compared to last corresponding period and net profit achieved was HK\$6.8 million (2001 – net loss of HK\$9.6 million). ISA and its subsidiaries (the "ISA Group") successfully gained market share in the vast business opportunities in Mainland China by a well-established distribution steel network with 6 sales offices in major cities, namely Beijing, Shanghai, Guangzhou, Tianjin, Shenzhen and Chongqing. Capitalising on its extensive local market coverage, brandname and strong strategic partnerships established over the past two years, the ISA Group will focus as an aggregator and distributor for the growing markets in Asia, particularly China. The VSC Group is satisfied with the ISA Group's performance and will continue to explore for opportunities to consolidate and rationalise its shareholding in ISA for better business synergy to both groups to solicit business, utilise resources and enhance business efficiency.

REVIEW OF OPERATIONS (Continued)**(3) Other investments and associated companies (Continued)**

The **Baosteel Jingchang joint venture** continued to grow satisfactorily. Turnover increased by 33% to RMB104 million. Capitalising on the increase in steel prices as our coil centre, gross profit increased by 184%. Net profit reached RMB1.1 million as compared to net loss of RMB0.5 million last period.

On 5 December 2002, the VSC Group entered into an agreement with Shougang Holding (Hong Kong) Limited in which the VSC Group would acquire a 7.5% beneficial interest in a new joint venture company of the Beijing Shougang Group located in Beijing with a consideration of HK\$23.4 million. The joint venture will be engaged in manufacturing and distribution of colour-coated steel plates with an annual capacity of 170,000 tonnes. Demand of colour-coated steel plates in Mainland China has been very high and mostly satisfied by import. With a booming demand from construction projects of the 2008 Olympic Games in Beijing and the hosting of the 2010 World Expo by Shanghai, such investment should not only offer attractive return to the VSC Group but also enable it to participate in distribution of finished goods and sourcing of raw materials for the joint venture.

PROSPECTS

Amid the deflation-battered economic environment in Hong Kong, the VSC Group had successfully recovered from its discouraging performance last year and emerged much stronger than before.

For the construction materials operation, Hong Kong's burgeoning transport infrastructure has provided and will continue to offer demand in rebars, piling, soil nails and couplers. Large-scale projects include Route 5 between Shek Wai Kok and Chai Wan Kok, Route 7 connecting Kennedy Town to Aberdeen, Route 9 from Tsing Yi via Ngong Shuen Chau to Sha Tin Section, Route 10 linking North Lantau and Yuen Long Highway, Central and Wanchai Reclamation, East Kowloon Clean City, East Rail Extension to Tsim Sha Tsui, West Rail, and 2nd Linkage with China invested by the Government and the two railway corporations. The Government has recently announced several new measures with a view to stabilising property market and improving economic climate. While the Government has pledged to minimise its interference on the property market such as the halt of Home Ownership Scheme, the positive impact, if any, on helping the recovery of private property market and hence the related construction activities would still yet to be seen. Some of the VSC Group's major private jobs include Nina Tower in Tsuen Wan and redevelopment of KMB, Lai Chi Kok Depot. With contracts-on-hand of about HK\$660 million, the management remains cautiously optimistic about the future prospect of the construction steel business in Hong Kong. On the other hand, the VSC Group is keen to develop new markets in nearby cities. Macau, for example, offers vast opportunity to our construction materials for the construction of new casinos, cultural centre, hotels, theme parks, highways, etc. The VSC Group also plans to set up new retail shops and showrooms to expand its presence in Macau, Shenzhen, Beijing, Shanghai and other major cities in China.

For the industrial products operation, China's exceptionally strong economy characterised by an over 7% Gross Domestic Product (GDP) growth as compared to the global economy provides an exciting platform for the VSC Group to flourish. Our strategy of developing a chain of well-managed coil centres throughout strategic locations of Mainland China would provide a powerful engine to achieve rapid growth in turnover and profitability. The VSC Group will also explore to carry out similar steel or metal processing for other high-growth industries such as automotive parts so as to further develop its niche position in the market. The VJY enclosure systems manufacturing is well equipped to grasp the business growth of telecommunication products and aims to broaden its product scope to cabinet systems for computer and banking industry. Leveraging on the existing set up, VJY will strengthen its role of total solution provider to production of related network support equipment and provision of electronic manufacturing services. The plastics and machinery department will reposition its focus and establish distribution channel to serve the domestic market opened by the entry of China into the World Trade Organisation.

Operationally, the VSC Group will continue to implement the Oracle ERP system and internalise TCT methodology across all departments in the coming year. These efforts could serve to foster the three core values of the VSC Group, namely, teamwork, customer driven and continuous improvement.

EMPLOYEE AND REMUNERATION POLICIES

As at 30 September 2002, the VSC Group employed 703 staff. Salaries and annual bonuses are determined according to positions and performance of the employees. The VSC Group provides on-the-job training and training subsidy to its employees in addition to retirement benefit schemes and medical insurance. Total staff costs including contribution to retirement benefit schemes incurred during the 6-month period under review amounted to approximately HK\$25 million. During the 6-month period under review, 10,500,000 options have been offered and granted to its employees under the new share option scheme adopted since 12 November 2001.

DIRECTORS' INTERESTS IN SHARES AND WARRANTS

As at 30 September 2002, the interests of directors and their respective associates in the shares of HK\$0.10 each in the capital of VSC ("Shares") as recorded in the register maintained by VSC under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to VSC and the Stock Exchange, were as follows:

Name	Number of Shares	Number of Warrants (Note a)
Mr. Yao Cho Fai, Andrew (Note b)	204,624,000	–
Ms. Yao Che Li, Miriam (Note b)	204,624,000	–
Mr. Dong Sai Ming, Fernando (Note c)	1,242,000	124,200
Mr. Ho Sai Hou, Johnson (Note d)	466,400	46,640
Dr. Shao You Bao (Notes e and f)	600,000	120,000
Mr. Ting Woo Shou, Kenneth (Note g)	2,402,000	240,200

Notes:

- a. The warrants ("Warrants") of VSC conferred rights to subscribe in cash for Shares, on the basis of a subscription price of HK\$1.18 per Share (subject to adjustment) during the period from 19 November 2001 to 18 November 2004 (both dates inclusive).
- b. As at 30 September 2002, Huge Top Industrial Ltd. ("Huge Top") held 204,624,000 Shares of VSC. The board of directors of Huge Top only comprises Mr. Yao Cho Fai, Andrew and Ms. Yao Che Li, Miriam, who are also VSC's Directors. Mr. Yao Cho Fai, Andrew directly and indirectly through Perfect Capital International Corp. owned more than one-third of the issued shares of Huge Top and is entitled to exercise more than one-third of the voting power at general meetings of Huge Top. The interests of the aforesaid Directors in the issued Shares of VSC were corporate interests in VSC as described in Practice Note 5 of the Listing Rules.
- c. Mr. Dong Sai Ming, Fernando held 1,242,000 Shares and 124,200 Warrants of VSC. These interests were personal interests in VSC as described in Practice Note 5 of the Listing Rules.
- d. Mr. Ho Sai Hou, Johnson held 466,400 Shares and 46,640 Warrants of VSC. These interests were personal interests in VSC as described in Practice Note 5 of the Listing Rules.
- e. Dr. Shao You Bao held 600,000 Shares and 60,000 Warrants of VSC. These interests were personal interests in VSC as described in Practice Note 5 of the Listing Rules.
- f. Ms. Hsu Chi Kung, wife of Dr. Shao You Bao, held 60,000 Warrants of VSC. The interests of Dr. Shao You Bao in these Warrants were family interests in VSC as described in Practice Note 5 of the Listing Rules.
- g. Mr. Ting Woo Shou, Kenneth held 2,402,000 Shares and 240,200 Warrants of VSC. These interests were personal interests in VSC as described in Practice Note 5 of the Listing Rules.

The interests of the directors in the share options of VSC are separately disclosed in the section "Share Option Scheme" below.

Other than disclosed herein, as at 30 September 2002, neither the Directors nor their associates had any interests in any Shares of VSC (within the meaning of the SDI Ordinance) which were required to be notified to VSC pursuant to Section 28 of the SDI Ordinance or which were required to be recorded under Section 29 of the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the heading "Directors' Interests in Shares and Warrants" above and the heading "Share Option Scheme" below, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of VSC granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was VSC, its holding companies, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

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

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

Old Share Option Scheme

Name or category of participant	Date of grant	Exercise period	Subscription price per Share	Number of share options		
				Beginning of period '000	Lapsed/ exercised during the period '000	End of period '000
<i>Directors:-</i>						
Mr. Yao Cho Fai, Andrew	17 December 1994	15 January 1997 to 15 January 2004	HK\$1.1344	2,000	-	2,000
	18 January 1996	15 January 1997 to 15 January 2004	HK\$1.2528	2,000	-	2,000
	18 March 1996	1 May 1998 to 22 January 2004	HK\$1.3840	2,900	-	2,900
Ms. Yao Che Li, Miriam	17 December 1994	15 January 1997 to 15 January 2004	HK\$1.1344	2,000	-	2,000
Mr. Ho Sai Hou, Johnson	17 December 1994	15 January 1997 to 15 January 2004	HK\$1.1344	500	-	500
	18 March 1996	1 May 1998 to 22 January 2004	HK\$1.3840	400	-	400
Sub-total				9,800	-	9,800
<i>Employees:-</i>						
In aggregate	3 March 1994	1 April 1996 to 31 March 2003	HK\$0.9360	6,000	-	6,000
In aggregate	17 December 1994	15 January 1997 to 15 January 2004	HK\$1.1344	2,000	-	2,000
In aggregate	18 January 1996	15 January 1997 to 15 January 2004	HK\$1.2528	2,000	-	2,000
In aggregate	10 January 2000	1 February 2002 to 22 January 2004	HK\$1.6880	1,100	(200)	900
Sub-total				11,100	(200)	10,900
Total of Old Share Option Scheme				20,900	(200)	20,700

SHARE OPTION SCHEME (Continued)

New Share Option Scheme

Name or category of participant	Date of grant	Exercise period	Subscription price per Share	Closing price before grant*	Beginning of period '000	Number of share options		End of period '000
						Granted during the period '000	Lapsed/ exercised during the period '000	
<i>Employees:-</i>								
In aggregate	10 September 2002	10 September 2002 to 9 September 2012	HK\$0.400	HK\$0.305	-	4,000	-	4,000
In aggregate	30 September 2002	30 September 2002 to 29 September 2012	HK\$0.390	HK\$0.340	-	6,500	-	6,500
Sub-total					-	10,500	-	10,500
Total of New Share Option Scheme					-	10,500	-	10,500

* The closing price of the Shares on the Stock Exchange of the trading date immediately before the grant of the options.

For the share options held by the Directors as disclosed in above table, these interests were personal interests in VSC as described in Practice Note 5 of the Listing Rules.

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

The financial impact of share options granted is not recorded in VSC'S or the VSC Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of the share options, the resulting Shares issued are recorded by VSC as additional share capital at the nominal value of the Shares, and the excess of the exercise price per Share over the nominal value of the Shares is recorded by VSC in the share premium account.

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

SUBSTANTIAL SHAREHOLDER

As at 30 September 2002, according to the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance, VSC had been notified of the following interest (other than those interests of Directors disclosed above), being 10% or more of the issued share capital of VSC:

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

Save as disclosed above, VSC had no notice of any interests required to be recorded under Section 16(1) of the SDI Ordinance as at 30 September 2002.

CODE OF BEST PRACTICE

None of the directors of VSC is aware of any information which would indicate that the VSC Group is not, or was not, in compliance with the Code of Best Practice (the "Code") as set out in Appendix 14 to the Listing Rules at any time during the six months ended 30 September 2002, except that the non-executive directors of VSC are not appointed for specific terms. However, the non-executive directors are subject to retirement by rotation and re-election at the annual general meeting in accordance with VSC's Bye-laws. In the opinion of the directors, this meets the objective of the Code.

AUDIT COMMITTEE

In compliance with the requirements set by the Stock Exchange, the VSC Group set up its Audit Committee in December 1998. The Committee consists of three non-executive directors, Mr. Ting Woo Shou, Kenneth as Chairman and Dr. Chow Yei Ching and Dr. Shao You Bao as members. Scope of the work of the Audit Committee is defined and approved by the Board in relation to various internal control and audit issues with a view to further improving our corporate governance. These unaudited condensed interim accounts for the six months ended 30 September 2002 of VSC now reported on have been reviewed by the Audit Committee.

PURCHASE, SALE OR REDEMPTION OF SHARES AND WARRANTS

Neither VSC nor any of its subsidiaries has purchased, sold or redeemed any of VSC's listed securities during the six months ended 30 September 2002.

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

Hong Kong, 11 December 2002

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