VSC万顺昌

VAN SHUNG CHONG HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)
(Stock Code: 1001)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31ST MARCH 2004

The Board of Directors of Van Shung Chong Holdings Limited ("VSC") hereby announces the audited consolidated results of VSC and its subsidiaries (the "VSC Group") for the year ended 31st March 2004, together with comparative figures, as follows:

	Notes	**2004** ***HK$'000***	2003 *HK$'000*
Turnover	2	**3,549,110**	2,755,769
Cost of sales		**(3,314,790)**	(2,536,655)
Gross profit		**234,320**	219,114
Other revenue		**11,028**	11,690
Selling and distribution expenses		**(21,352)**	(17,107)
General and administrative expenses		**(119,498)**	(135,148)
Other income/(expense)		**5,294**	(1,500)
Operating profit	3	**109,792**	77,049
Finance costs		**(13,337)**	(11,144)
Profit before taxation		**96,455**	65,905
Taxation	4	**(11,061)**	(2,164)
Profit after taxation but before minority interests		**85,394**	63,741
Minority interests		**(4,331)**	(3,329)
Profit attributable to shareholders		**81,063**	60,412
Dividends		**(21,180)**	(18,111)
Earnings per share	5		
— Basic		**24.6 cents**	17.4 cents
— Diluted		**23.6 cents**	17.3 cents

Notes:

1. **Basis of Presentation and Preparation**

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). Commencing from 1st April 2003, the VSC Group has adopted the revised Statement of Standard Accounting Practice ("SSAP") 12 "Income taxes" issued by the HKSA, under which deferred taxation is provided in full on temporary differences arising between the tax bases of assets and liabilities and their carrying value amounts in the accounts. The adoption of the revised SSAP 12 represents a change in accounting policy, which has no significant effect on the VSC Group's results for the prior accounting periods.

2. **Segment Information**

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

a. Primary segment

Analysis of the VSC Group's results by business segment was as follows:

2004	**CAMP** ***HK$'000***	**CMG** ***HK$'000***	**Other operations** ***HK$'000***	**Total** ***HK$'000***
Turnover				
Sales to external customers	**674,241**	**2,873,024**	**1,845**	**3,549,110**
Segment result	**69,934**	**67,698**	**(644)**	**136,988**
Other revenue	**516**	**456**	**10,056**	**11,028**
Surplus on revaluation of investment properties	**—**	**—**	**2,818**	**2,818**
Gain on disposal of an investment property	**—**	**—**	**2,476**	**2,476**
Unallocated corporate expenses				**(43,518)**
Operating profit				**109,792**
Finance costs				**(13,337)**
Taxation				**(11,061)**
Profit after taxation but before minority interests				**85,394**

2003	CAMP *HK$'000*	CMG *HK$'000*	Other operations *HK$'000*	Total *HK$'000*
Turnover				
Sales to external customers	472,351	2,279,602	3,816	2,755,769
Segment result	59,251	65,644	329	125,224
Other revenue	384	90	11,216	11,690
Deficit on revaluation of investment properties	—	—	(1,500)	(1,500)
Unallocated corporate expenses				(58,365)
Operating profit				77,049
Finance costs				(11,144)
Taxation				(2,164)
Profit after taxation but before minority interests				63,741

b. Secondary segment

Analysis of the VSC Group's results by geographical segment was as follows:

2004	**Hong Kong** ***HK$'000***	**Mainland China** ***HK$'000***	**Total** ***HK$'000***
Turnover	**1,171,303**	**2,377,807**	**3,549,110**
Segment result	**43,641**	**93,347**	**136,988**
Other revenue	**5,724**	**5,304**	**11,028**
Surplus on revaluation of investment properties	**1,500**	**1,318**	**2,818**
Gain on disposal of an investment property	**—**	**2,476**	**2,476**
Unallocated corporate expenses			**(43,518)**
Operating profit			**109,792**

2003	Hong Kong *HK$'000*	Mainland China *HK$'000*	Total *HK$'000*
Turnover	1,278,915	1,476,854	2,755,769
Segment result	52,270	72,954	125,224
Other revenue	4,610	7,080	11,690
Deficit on revaluation of investment properties	(1,500)	—	(1,500)
Unallocated corporate expenses			(58,365)
Operating profit			77,049

3. **Operating Profit**

Operating profit was determined after charging or (crediting) the following items:

	2004 ***HK$'000***	2003 *HK$'000*
After charging—		
Staff costs (including directors' emoluments)	**68,681**	65,593
Depreciation of property, plant and equipment	**16,791**	20,132
Amortisation of goodwill	**2,359**	1,850
Net loss on disposal of property, plant and equipment	**5**	—
After crediting—		
Net gain on disposal of property, plant and equipment	**—**	(51)
Gain on disposal of an investment property	**(2,476)**	—
Return from a joint venture	**(4,344)**	(6,615)
Dividend income from a long-term investment	**(374)**	(188)

4. **Taxation**

Taxation consisted of:

	2004 ***HK$'000***	2003 *HK$'000*
VSC and subsidiaries —		
Current taxation		
Hong Kong profits tax		
— Current year	**5,190**	4,080
— Overprovision in prior years	**—**	(5,097)
Mainland China enterprise income tax	**6,464**	3,181
Deferred taxation relating to the origination and reversal of temporary differences	**(593)**	—
	11,061	2,164

5. **Earnings Per Share**

The calculation of basic earnings per share for the year ended 31st March 2004 is based on the consolidated profit attributable to shareholders of approximately HK$81,063,000 (2003: HK$60,412,000) and the weighted average number of approximately 329,088,000 ordinary shares (2003: 347,859,000 ordinary shares) in issue during the year.

The calculation of diluted earnings per share for the year ended 31st March 2004 is based on the consolidated profit attributable to shareholders of approximately HK$81,063,000 (2003: HK$60,412,000) and the diluted weighted average number of approximately 344,131,000 ordinary shares (2003: 348,324,000 ordinary shares) in issue after adjusting for the potential dilutive effect in respect of outstanding warrants and share options.

6. **Related Party Transactions**

(a) Details of significant transactions with related parties were:

Name of related party/Nature of transaction

	2004 ***HK$'000***	2003 *HK$'000*
Metal Logistics Company Limited (i)		
— Sales made by the VSC Group	**155,716**	287,413
— Administrative service fees earned by the VSC Group	**180**	180
— Interest earned by the VSC Group	**5,672**	4,616
— Commission for procurement services paid/payable by the VSC Group	**1,894**	1,552
iSteelAsia (Hong Kong) Limited (i)		
— Rental earned by the VSC Group	**198**	600
— Administrative service fees earned by the VSC Group	**180**	180
EC Investment Services Limited (ii)		
— Rental earned by the VSC Group	**—**	383

Notes:

(i) Metal Logistics Company Limited and iSteelAsia (Hong Kong) Limited are wholly owned by iSteelAsia Holdings Limited, a company in which the VSC Group has a 18.9% equity interest as at 31st March 2004 (2003: 19.2%).

(ii) EC Investment Services Limited was beneficially owned and controlled by Mr. Tsang Kwok Tai, Moses, a former non-executive director of VSC, who resigned on 17th August 2002, and the amount of transactions with EC Investment Services Limited was disclosed up to that date.

(b) The amount due from a related company arising from transactions described in Note 6a was included in accounts receivable. Details of these balances are as follows:

Name of related party	**2004** ***HK$'000***	2003 *HK$'000*
Metal Logistics Company Limited (i)	**205,611**	210,202

Note:

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

RESULTS

The VSC Group's performance for the year was encouraging. Turnover for the year ended 31st March 2004 was HK$3,549 million, an increase of 29% compared with the previous year. In line with the VSC Group's earlier stated intention to expand in the fast growing China market, the increase was mainly attributable to increase in turnover of steel processing and distribution in Mainland China, with CAMP operations growing by 43% and CMG operations growing by 26%, respectively. However, in light of the substantial monetary resources involved and credit standing of potential customers, the VSC Group adopts a very prudent approach in developing the steel distribution business in Mainland China whereby transactions are generally done on indent (similar to back-to-back) and cash on delivery basis, resulting in a relatively lower margin within the VSC Group. As such, overall gross margin of the VSC Group decreased from 8.0% to 6.6%. With the VSC Group's continuous efforts in cost saving, general and administrative expenses were reduced by approximately HK$16 million or a decrease of 12% from the previous year. Savings mainly stem from the reduction in office rental costs and professional fees. Profit attributable to shareholders was HK$81.1 million, an increase of 34% as compared to the previous year.

Basic earnings per share increased by 41% to 24.6 cents due to increase in profit attributable to shareholders coupled with the reduction in share capital as a result of the VSC Group's voluntary share repurchase exercise completed in January 2003. A final cash dividend of 2.8 cents per share was recommended, together with the interim dividend representing a cash dividend payout of 26% (2003 — 30%). It is the VSC Group's policy to try to pay dividends to reward its shareholders. With its stated strategy for further expansion, especially in CAMP, the management will balance the goal to achieve an attractive yield return for its shareholders while through reinvestments of capital to maximise the VSC Group's shareholders' value in the medium to longer term.

FINANCIAL ANALYSIS

As compared to 31st March 2003, current ratio improved to 1.42 while quick ratio have slightly decreased to 0.86. Both were still kept at a healthy level. Gearing ratio (interest bearing short-term borrowings and long-term bank loan divided by shareholders' equity) increased from 1.17 to 1.29 which is mainly attributable to the growth of business. The bulk of the increase in the VSC Group's liabilities was on the short-term bank trade financing, which was well matched by the increase in inventories and accounts receivable of the increased business activities. The VSC Group's trade financing remained primarily supported by its HK$1.4 billion banking facilities. As in prior years, these lines were secured by the VSC Group's inventories held under short term trust receipts bank loan arrangement and corporate guarantees by VSC. Interest costs of the import bank loans are levied on US/HK dollar LIBOR/SIBOR/HIBOR basis with very competitive margin.

Currently, the ongoing operating expenses of the VSC Group's business in Mainland China were primarily financed by cash generated from the domestic businesses and bank loans in Renminbi ("RMB"). Interest costs of RMB banking facilities were based on loan rates set by The People's Bank of China plus competitive margin. The VSC Group will continue to solicit additional RMB financing from both foreign and domestic banks to support its business and operations in Mainland China.

In October 2003, the VSC Group successfully secured a HK$250 million three-year revolving credit and term loan facility from a syndicate of nine reputable international and local banks. A share placement was also completed in November 2003 for 33 million new shares at HK$1.8 per share, bringing in proceeds of about HK$55 million. Such additional capital has further strengthened the financial position of the VSC Group and enables the VSC Group to be more flexible in capturing market opportunities in its business growth in China.

CHARGES ON ASSETS

The VSC Group had certain inventories held under short-term trust receipts bank loan arrangement and bank deposits, inventories and plant and machinery of approximately HK$37.3 million pledged for the RMB bank loan.

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. As in prior years, the current peg system in Hong Kong had minimised the VSC Group's exposure in US dollar. Net asset value of the VSC Group's major businesses and investments in Mainland China amounted to approximately HK$151 million as at 31st March 2004. The VSC Group has obtained bank loans and facilities of RMB100 million to mitigate its currency exposure on its Mainland China operation. Transaction values involving Euro was relatively insignificant and hedging by forward contracts had been used as the main tool to reduce such foreign exchange exposure.

CONTINGENT LIABILITIES

As at 31st March 2004, the VSC Group had contingent liabilities in the form of guarantees of approximately HK$19 million.

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal 2003/04 was an exceptional year for the VSC Group. Not only was it the 10th anniversary of VSC's listing in The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 1994, it was also a year when the VSC Group thrived, both operationally and financially, with the successful introduction of new businesses, operations, locations and capital to establish a solid foundation for further growth. Turnover increased by 29% to a record high of HK$3,549 million and profit attributable to shareholders improved by 34% to HK$81 million. Such development was achieved under a turbulent operating environment, particularly during the SARS outbreak in Hong Kong and Mainland China in the early 2003/04 and the global soaring steel price throughout the rest of the year.

CHINA ADVANCED MATERIALS PROCESSING ("CAMP")

The VSC Group's CAMP operations consist of three business units, 1) coil centre operations in Dongguan, Tianjin, Guangzhou and Nansha, which provide rolled steel processing services to OEM manufacturers of white goods, electrical appliances, computers and automobile parts in the respective regions; 2) manufacturing of customised enclosure systems in Shenzhen, which carries out a variety of precision metal processing and assembly services for telecommunication, automobile and other industries; 3) distribution of engineering plastic resins and injection moulding machines to industrial manufacturers of household appliances, audio/video equipments, telecommunication applications and computers located in China.

Turnover and segment result generated from the CAMP operations have increased by approximately 43% and 18%, respectively, over that in 2002/03 and accounted for approximately 19% and 51%, respectively, of the VSC Group's total turnover and segment result.

Coil Centre Operations

The coil centre operations of the VSC Group currently consist of three main subsidiary factories in Dongguan, Tianjin and Guangzhou as well as its 14% investment in the joint venture company in Nansha. During the year, the VSC Group expanded the capacity of its Dongguan factory (completed in July 2003), built a "greenfield" factory in Tianjin (commenced operation in July 2003) and acquired an existing factory in Guangzhou (completed by end of March 2004), resulting in close to tripling of its processing capacity as compared to last financial year.

With the addition of an automated slitting machine in the first quarter and the dedicated team's effort to develop high-volume key customers, the **Dongguan coil centre (DGCC)**, managed to achieve an increase in turnover of about 27% to a record high of approximately HK$353 million. As compared to last year, profitability was however adversely affected by the SARS epidemic in the early 2003/04 and the volatility in the steel price throughout the rest of the year. During the SARS outbreak, orders were delayed or cancelled since the overseas end customers of the OEM vendors or manufacturers of international brand names we served refrained from traveling to Mainland China. Throughout the year, the steel price was driven upwards by the rising raw material costs such as iron ore, coal, electricity and freight charges. Coupled with the blazing demand of steel underpinned by robust economic growth in Mainland China and the inability to produce adequate quality flat steel products domestically, the price for imported steel has seen an unprecedented sharp rise within a short period and remained buoyant for much of the period under review. Such persistent high costs placed an intense pressure on our profit margin as the VSC Group's core strategy is to be "customer centric" in the long run while leveraging on its relationship with steel mills to maintain its competitiveness in the current "supplier centric" market environment. As such, the VSC Group has decided to "invest" in its customers, and has not passed on the entire steel price rises to certain customers selectively which resulted in the gross margin being eroded to 18% from 25%. Nevertheless, such pricing strategy has enabled DGCC to pave the way for businesses with more high-volume customers. The key customers portfolio has healthily expanded with a wider dispersion of major customers as reflected by the sales contribution of the top 10 customers changing from over 50% to about 36%. Reflective of its continuous efforts to improve production capacity and efficiency, DGCC was awarded the status of New and High Technology Enterprise in June 2003 and Advanced Technology Enterprise in December 2003 as recognition of its high productivity and technical innovation. Monthly output tonnages are on the rising trend and reached new high of over 8,000 metric tonnes in March 2004. For the year under review, DGCC has against such difficult drawbacks achieved segment result of approximately HK$52 million, a slight 11% drop from last year record high figure of HK$58 million. As mentioned above, the profit margin was adversely affected in the short term but the VSC Group has taken a more long-term strategy to absorb some of these sharp rises in steel prices to "invest" in the loyalty of its customers which the VSC Group believe will go along way to differentiate the VSC Group positively from the future more competitive landscape.

The "greenfield" **Tianjin coil centre (TJCC)** is the VSC Group's first inroad of steel service centre to the northern China market, strategically located to service the industrial manufacturers in Tianjin, Beijing, Shandong, Liaoning and Hebei which constitute a very different market demography. Since production commenced in July 2003, very encouraging progress in terms of customer development and production improvement has been made. Large customers such as Kelon, a domestic manufacturer with multiple factories in several provinces, and LG, a large Korean manufacturer have been secured. Unlike its Dongguan sister plant, whose clients are mainly OEM vendors with their end products exported to the US and European markets, TJCC's target customers are mostly manufacturers in household appliances, electronics equipments, transformer, lift and automobile parts having their finished goods distributed in the China market. Other than importing steel from overseas, toll processing and domestic sourcing of steel would also be required to serve some of these local customers. By transferring the knowledge base and several staff from Dongguan to fill key positions of this new facility, production run has been speedily set up and continuously improved to attain a current monthly output of about 40% of DGCC. It is also planned to further streamline the operation process and launch a series of training programmes to increase the production tonnage and obtain ISO accreditation within 2004. For its first 9-month operation in 2003/04, turnover generated from TJCC amounted to approximately HK$38 million. Although segment result of an operating loss of approximately HK$0.7 million after one-off absorption of the pre-commencement expenses of HK$0.5 million was recorded, TJCC has already attained operational breakeven and is expected to be a profit contributor to the VSC Group in coming years.

Consistent with its stated mission to establish a chain of professionally managed steel service centres in various strategic locations in China using an "enterprise" management approach, the VSC Group acquired a 70% stake in an existing plant located at Huangpu of Guangzhou in late March 2004. The **Guangzhou coil centre (GZCC)** is the third similar service centre that the VSC Group is responsible for operations and managements. Our partner, Shinsho Corporation, is the trading arm of a large Japan steel manufacturer — Kobe Steel Group. Through such strategic alliance, the VSC Group expects to secure a new source of stable and high quality supply of steel for its entire coil centre operations. The VSC Group can also embark on the established Japanese clientele in both automobile and home appliance sectors of the existing GZCC. GZCC has been in operation since 1996. It is equipped with advanced Japanese machineries and the capacity is similar to DGCC of approximately 100,000 metric tonnes per annum, which at the time of VSC's acquisition was only operating at 20~30% capacity utilisation rate. Guangzhou is now developing into a major automobile and home appliance manufacturing hub in southern China with vast demand and business opportunities for the VSC Group to exploit. We are now rationalising the resources and undergoing necessary restructuring of sales, marketing and production functions of this acquired operation to increase its business and improve profitability.

The VSC Group's 14% owned **Baosteel Jingchang joint venture** in Nansha continued to pose another strong year of growth in its fifth year of operation. 2003/04 turnover of the joint venture surged by 149% to over RMB495 million. Annual volume also exceeded 95,000 metric tonnes in tonnage for the year 2003. Benefiting from the substantial increase in output in absorbing the fixed costs, profitability also improved impressively. Net profit for the financial year under review amounted to approximately RMB13.3 million. Dividend received during the year was about RMB0.4 million and dividend declared after year end based on distributable profit amounted to about RMB1.3 million. The Nansha joint venture continued to grow and expand, leveraging on the strong support from its shareholders, Shanghai Baosteel Group and Japan Mitsui Group, in supplying of steel and working capital. Ongoing improvements were made in adapting the latest technology and modern management tools such as balance scorecard to set specific measurable targets on areas of financials, customers, internal operation and training and development. Phase 2 expansion was almost completed by year end of 2003 and in order to grasp the booming business of automobile parts in the region, a plan for Phase 3 expansion is also being considered to buy land for the new production facilities. As in Phase 2, the Nansha joint venture will use its own internal resources and own bank borrowing to finance the requisite capital expenditure for Phase 3.

Enclosure Systems Manufacturing

After 15 months of operation, the **VJY enclosure systems manufacturing (VJY)** is in its second full year of production and has accomplished encouraging performance by making 2003/04 its first profit-making year. Turnover surpassed the RMB100 million mark and has increased by 174% to about HK$109 million. Segment result achieved was an operating profit in the amount of about HK$9 million, as compared to a loss of HK$6 million in the previous year. Such achievement testifies to the effectiveness in implementing the VSC Group's strategic decision in investing substantial resources and efforts to move downstream to provide precision metal processing services for fast growth industry of telecommunication and automobile.

Currently, VJY has secured its position as one of a selected few core vendors of customised enclosure systems to the two leading domestic PRC telecommunication equipment providers/manufacturers, Huawei and Zhongxing. Telecommunication industry in China thus far is characterised by its high-growth potential, with double-digit annual growth rate of telecommunication investment and Internet users. VJY's top customer, Huawei, enjoys a leading position in the 3G technology and is exporting extensively its products to markets outside of Mainland China, for example, to the Hong Kong mobile phone network provider — Sunday. Using key account management and closely monitoring the telecommunication market trend, VJY has maintained a strong foothold in the Mainland China telecommunication industry to well serve its key customers' needs in both domestic and overseas markets. Businesses with other major customers such as Emerson, the renowned U.S. power supply equipment provider and Japan Isuzu's Guangzhou plant for supply of passenger bus parts were also developed with sound progress.

VJY will continue to strengthen and develop its technical capability as a core competence to enhance competitiveness. Production flow and processes were redesigned and refined with an update of product mix through Total Cycle Time methodology and Oracle ERP application to raise output capacity and planning achievement rate while production lead time, work in progress and rework are to be optimised. Outsourcing of certain less stringent and demanding production processes was implemented from time to time to provide production flexibility and to enhance capacity. VJY's profit margin was affected by the high raw material costs especially during the second half of financial year 2003/04 and in particular the metal costs such as steel and copper reached historic highs. However, the VSC Group's excellent steel supply chain management and bargaining power have lessened such impact to VJY's raw material costs. Special efforts will be placed to further focus on cost reduction measures and mechanism to lower materials costs and manufacturing expenses. The VSC Group reckons the need and is committed to build manufacturing excellence in VJY to turn it an efficient and low cost operator to meet the tremendous sales growth opportunity in future.

Plastics and Machinery Distribution

For the year under review, the **plastics and machinery distribution** recorded a 11% increase in turnover to approximately HK$172 million and a 21% growth of segment result of approximately HK$10 million. For the plastics division, sales volume grew 34%, representing the team's effort in promoting the engineering plastic resins of Samsung Atofina, Samsung Cheil, Mitsubishi and GE Plastics. The team rendered value-added technical advice to customers in their new products development and coordinate with the suppliers in testing the applications. In light of the rising living standards and higher product quality in Mainland China as well as the lowering of import duty on resins with Mainland China's concession into the WTO, demand for high quality imported resins by the domestic manufacturers has been increasing. During the year, the division formed a local sales team in Shenzhen to exploit the local market. A wholly owned trading company in Shenzhen will be set up in mid 2004 to target this market with full force. A sales team will also be established in Guangzhou with its office locating in GZCC to explore cross-selling opportunities to its existing customers and expand the coverage to Guangzhou, Shunde, Zhongshan and Zhuhai. On the other hand, the machinery division was affected by strong competition and poor sentiment for new capital investment, especially for the division's costly high-end Japanese injection moulding machinery. Commission from new machineries sold was much reduced. The division aims to improve its revenue by promoting more maintenance programmes and also developing the second hand machinery market.

CONSTRUCTION MATERIALS GROUP ("CMG")

As stated in last year's annual report, the VSC Group has expanded its CMG coverage from Hong Kong to a few selected major cities in Mainland China (e.g. Shenzhen, Guangzhou, Shanghai, Beijing and Tianjin) to capture the booming market potential for construction materials in those regions. Consisting of a team of highly seasoned and experienced steel professionals who are well versed in the price trend and demand and supply of steel, CMG has successfully developed new businesses of imported structural steel, sheet piling, plate, rebars and galvanised steel (GI) in those major cities, which to a large extent accounted for the increase in turnover of CMG during the year. Turnover and segment result of CMG in 2003/04 have increased by 26% and 3% to approximately HK$2,873 million and HK$68 million, respectively, and accounted for approximately 81% and 49% of the total turnover and segment result, respectively, of the VSC Group.

Steel Distribution

The VSC Group's CMG operations are predominantly steel distribution, which embody stockholding business of construction steel in Hong Kong, steel distribution in Mainland China together with its 18.9% investment in the iSteelAsia Group, distribution of mainly domestic steel products in eastern China by its 66.7% owned joint venture, Shanghai Bao Shun Chang ("BSC"), and supply of GI to and distribution of pre-painted galvanised steel (PPGI) for its 10% owned joint venture with the Beijing Shougang Group. With the added emphasis in the Mainland China market, sales revenue from distribution of steel in Mainland China increased from 47% in 2002/03 to 61% of the total steel distribution turnover in 2003/04.

Steel distribution in Hong Kong was subject to a very challenging operating environment for the year 2003/04. The continuous setback in the property market spread to the construction and building products industries and reduced number of construction contracts, notably in the private sector. While outbreak of SARS further hit the economy of Hong Kong to the bottom, in the second half of financial year 2003/04, the market sentiment improved dramatically after the PRC central government rolled out a series of measures including Closer Economic Partnership Arrangement (CEPA) and relaxation of individual travel visa to Mainland Chinese of a number of cities to bolster and revitalise Hong Kong economy. During the second half of the year under review, Hong Kong staged a strong recovery in the tourism and retail sectors. The real estate market also started to turn more positive and active with the resumption of land auctions by the Hong Kong government announced by late 2003. These are good signs for the Hong Kong construction industry and hence the demand for steel, leading to the anticipation that recovery was on the verge which if sustainable will be beneficial to the VSC Group in the coming years.

Under such a difficult business environment, the **Hong Kong steel stockholding department** (which consist of rebars, structural steel, soil nails and couplers) finished the year 2003/04 with a slight increase in turnover of 2% and a 5% decrease in gross profit. In terms of tonnage, this department turned about 444,000 tonnes of steel, which is a decrease of 24% from the same period last year. Performance of the major unit, rebars stockholding business, is satisfactory. Sales improved by 7% to about HK$950 million and gross profit mildly dropped 2% to HK$52 million. As for the structural steel businesses, turnover decreased by 19% to about HK$188 million but gross margin has been slightly improved to 7.3% as compared with 6.8% over the same period last year. The engineering products business, coupler and soil nail, continued to grow steadily by 17% to about HK$15 million. As the first player engaged in the rebars stockholding business in Hong Kong since 1961, the department has built a very solid foundation and loyal relationship with many major property developers and contractors. The department continued to utilise key account management and centralised project database in its sales and marketing endeavours. Diligent efforts were also applied to rationalise resources, e.g. controlling operating costs, streamlining operation efficiency and strengthening supply chain management. Currently, the department's contracts-on-hand total about HK$760 million extending to year 2006. Highlight of some major projects included International Exhibition Centre at Chek Lap Kok, Phase 7 Development for The Hong Kong Polytechnic University, Superstructure Works at Phase 6 at Planning Area 19 in Tung Chung, Student Hostels Phase 3 Development at City University, Sands Macau Hotel and Wynn Resorts Macau. Although it is believed that the worst is over for Hong Kong economy and local construction sector, the department remains cautious in adjusting its business strategy. With the recovery of rebar price driven up by the supply and demand of the world and the shortage of iron ore, the department aims to maintain a sustainable profit contribution to the VSC Group.

As mentioned before, keenly aware of the strong demand underpinned by the booming construction industry in Mainland China, the VSC Group is able to develop a niche market of distributing selected high quality steel products in several major cities where a lot of building and infrastructure projects are carried out by foreign investors. The most significant progress made by CMG during the year was to develop the business of imported structural steel, mainly H-beams and sheet piles, into Shanghai. Taking advantage of import relaxation and reduced custom duty for H-beams due to China's accession into WTO, the VSC Group grasped the opportunity to successfully introduce high quality imported structural steel in Shanghai. As compared to the traditional approach of foundation work using rebars and concrete, use of H-beams could save construction time, offer flexibility in structural design and increase saleable area with less columns, which are all very well received by developers under the booming Shanghai property market. The VSC Group further enhanced the application and popularity of sheet piles by introducing the "Silent Piling" technology to the Shanghai market. This advanced method highlights the product's strength in environmental friendliness (less dust and noise), which is especially important in heavily populated cities like Shanghai. With the operation headquarters opened in Shanghai in May 2003, the VSC Group is strongly positioned in promoting this new imported H-beams and sheet piles business which unlike rebars, the PRC is still a net importer of these H-beams and sheet piles. Turnover arising from such distribution for 2003/04 exceeded HK$330 million as compared to zero in the last financial year. Coupled with other steel products distribution to distributors and end users in southern China, CMG achieved an aggregate turnover of about HK$654 million for steel distribution in Mainland China, a 2-fold increase from last financial year. The ongoing purchasing arrangement with the iSteelAsia Group also gave rise to sales of steel products of approximately HK$156 million. Given such sizeable volume of steel distribution, the VSC Group has benefited much in its supply chain management to obtain bulk purchase discount and flexible shipment delivery from the major international steel mills, which helps both CMG and CAMP to raise its competitiveness over other players.

BSC is a 66.7% joint venture company formed in 1993 with the Shanghai Baosteel Group. Leveraging on the strong support and connection with the Baosteel Group, this first venture of the VSC Group to steel distribution in Mainland China has persistently delivered good performance and yield to the VSC Group in the past decade. For 2003/04, turnover further jumped 55% to approximately HK$772 million and net profit contribution before minority interests rose 27% to about HK$13 million. Another high growth potential business for the VSC Group on steel distribution in China would stem from its investment of 10% in the Beijing Shougang Group's manufacturing of pre-painted colour-coated steel sheets or PPGI. By its 10% investment of US$4 million, with the principal recoverable by a put option to the Shougang Group in Hong Kong, the VSC Group is entitled to supplying the raw materials, GI to and distributing at least 50% of finished goods, PPGI at a pre-determined discounted cost from this new factory. The factory had commenced production since late 2003 and the VSC Group had already provided it with the requisite GI and assisted in distributing some of its first few test-run batches of PPGI. The VSC Group has installed the distribution network infrastructure in preparation for the full scale production, including establishment of sales office and trading company in Beijing and Tianjin as well as comprehensive marketing plan to capture the booming demand arising from construction of infrastructures, stadiums, exhibition centres and hotels for the upcoming 2008 Beijing Olympic Games and large automobile manufacturing facilities in Beijing, Shanghai and Tianjin.

Building Products

Building products department achieved turnaround for its operation and improved its performance by having an operating profit as segment result of HK$5 million in the year, as compared to the operating loss of HK$2 million in last year. Although the overall turnover remained at similar level as in the prior year at HK$139 million, the contribution by various product lines and business units to turnover has been materially changed. As stated in our previous announcement, the kitchen cabinets division has been restructured to abolish large long-term projects in view of the inherent high risks and low return. Thus, turnover from the kitchen installation business has been dropped substantially as the division is now focusing on small but high end individual projects, which yield much higher profit margin and demand less human resources. Shrinkage of business in kitchen cabinets was however compensated by increase of turnover in project sales of sanitary wares, Rover tiles and the retail business, Leisure Plus as well as the new distribution of Toto sanitary wares in Shanghai, which all recorded encouraging progress in business development. The department currently has contracts-on-hand worth around HK$33 million. Major outstanding projects include the supply of bathroom sanitary wares and tiles for Bellagio Sham Tseng, Ma Wan Island Phase 3 Oceanfront, Disney's Hollywood Hotel, Hong Kong Disneyland Hotel, Island Shangri-la Hotel renovation and Cityplaza renovation.

The project sales division has managed to raise sales revenue of its sanitary wares, Toto, Laufen, Hansgrohe and Rover tiles, by an increase of 40% under the weak construction market. Such achievement marked the hard work and effort by the sales team as motivated by an effective sales commission scheme as well as the extensive marketing effort in promoting our product brands to the target customers. The division also successfully diversified its distribution network to Macau to secure more businesses. **Leisure Plus**, the retail outlet and showroom in Wanchai continued to attract more shoppers after extension to ground floor of the same building and opening on Sunday. As SARS has raised in the community a concern of higher quality sanitary products for hygiene, the high end image built by Leisure Plus in these products offering has been very well received, resulting in more than 2-fold increase in turnover and positive profit contribution from the previous loss making position.

During the reporting year, the VSC Group has obtained distribution right of Toto sanitary wares in Shanghai. A wholly owned trading company, **Leisure Plus Shanghai**, has been set up to handle wholesale and project sales of Toto in Shanghai. In the year under review, Leisure Plus Shanghai generated a total turnover of approximately HK$31 million, an amount of similar magnitude to the annual turnover achieved in the Hong Kong market. Although the new operation has still not secured enough revenue to absorb its pre-operating expenses and fixed overhead for a profitable situation, with the booming property market in Shanghai and expected rising demand as stimulated by the 2010 World Expo in Shanghai, the VSC Group is optimistic with the Shanghai market potential for the building products department to thrive.

PROSPECTS

In the coming year, one of our major tasks is to maximise the synergetic effects brought by the VSC Group's two complementary business divisions to provide integrated service along the value chain and supply chain. Such vertical relationship has greatly strengthened our position and maintained the VSC Group's profit margin.

Strengthen Vertical Integrated Value-Added Service

We believe that product quality and service are the destinations of customers' choice. VSC is differentiated from other steel service providers in the PRC through the provision of comprehensive and integrated value-added service and scalable operation. The CAMP and CMG business divisions have perfectly linked the two poles of the supply chain with end customers and steel producers. The two strong developed networks keep VSC away from market speculation and fluctuation, enabling the VSC Group to maintain a profitable operation.

In addition to procurement side supply chain management, we will continue to extend our service by providing more comprehensive, efficient processing service, just-in-time delivery to add values to our customers and play a more important role in the value chain.

Reinforce Operation Structure

As mentioned, we have expanded the VSC Group's industrial business by adding the Guangzhou coil centre which has further extended VSC's service to well known consumer electronics and automotive brands. In 2004/05, we will focus on strengthening the established operations and maximising capacity through enterprise approach. On the other hand, we will also continue to explore other growth opportunities to enlarge market share in the burgeoning economy.

EMPLOYEE AND REMUNERATION POLICIES

In May 2004, the VSC Group employed about 1,200 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 year under review amounted to approximately HK$69 million. During the year under review, 20,045,000 options have been offered and granted to its employees under the new share option scheme adopted since 12th November 2001.

DIVIDENDS

During the year, an interim cash dividend of 3.1 cents per share was declared and paid up by 13th January 2004. The Directors have resolved to recommend at the forthcoming Annual General Meeting the payment of a final dividend of 2.8 cents per share in respect of the year ended 31st March 2004 payable to shareholders whose names appear on the Register of Members of VSC at the close of business on 11th August 2004. Subject to the approval of shareholders at the forthcoming Annual General Meeting, the final dividends warrants are expected to be despatched on or before 17th August 2004.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of VSC will be closed from 6th August 2004 to 11th August 2004 (both dates inclusive) during which period no transfers of shares will be registered. In order to qualify for the final dividend, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with VSC's Registrars in Hong Kong, Computershare Hong Kong Investor Services Limited by not later than 4:00 p.m. (Hong Kong SAR time) on 5th August 2004.

CODE OF BEST PRACTICE

In the opinion of VSC's Directors, VSC had complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") throughout the accounting year under review, 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.

PUBLICATION OF FURTHER INFORMATION

Information required by paragraphs 45(1) to 45 (3) inclusive of Appendix 16 of the Listing Rules in force prior to 31st March 2004 will be published on the website of the Stock Exchange in due course.

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

Hong Kong, 1st June 2004

The Directors as at the date of this announcement are:
Executive Directors: Andrew Cho Fai Yao (Chairman); Miriam Che Li Yao; Johnson Sai Hou Ho; Fernando Sai Ming Dong
Non-executive Director: Shao You Bao
Independent non-executive Directors: Chow Yei Ching; Kenneth Woo Shou Ting; Harold Richard Kahler

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