VSC万顺昌

VAN SHUNG CHONG HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 1001)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2004

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

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30th September 2004

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

Notes:

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

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

These condensed accounts should be read in conjunction with the annual accounts of the VSC Group for the year ended 31st March 2004. The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 31st March 2004.

2. SEGMENT INFORMATION

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

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

	China Advanced Materials Processing HK$'000	Construction Materials Group HK$'000	Other Operations HK$'000	Total HK$'000
For the six months ended 30th September 2004				
Turnover — Sales to external customers	**604,897**	**1,321,109**	**1,416**	**1,927,422**
Segment results	**53,666**	**2,467**	**278**	**56,411**
Other revenue	**1,444**	**134**	**4,231**	**5,809**
Unallocated corporate expenses				**(25,789)**
Operating profit				**36,431**
Finance costs				**(7,377)**
Taxation				**(2,149)**
Minority interests				**(2,811)**
Profit attributable to shareholders				**24,094**
For the six months ended 30th September 2003				
Turnover — Sales to external customers	295,956	1,308,416	1,305	1,605,677
Segment results	39,873	33,187	198	73,258
Other revenue	557	50	6,374	6,981
Gain on disposal of an investment property	—	—	1,686	1,686
Unallocated corporate expenses				(19,417)
Operating profit				62,508
Finance costs				(7,956)
Taxation				(7,128)
Minority interests				(2,073)
Profit attributable to shareholders				45,351

3. OPERATING PROFIT

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

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

4. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the VSC Group operates.

The amount of taxation charged/(credited) to the consolidated profit and loss account represents:

	Six months ended 30th September 2004 HK$'000	2003 HK$'000
Current taxation:		
— Hong Kong profits tax	**3,711**	6,054
— Overseas taxation	**1,238**	1,533
— Over provisions in prior years	**(142)**	—
Deferred taxation relating to the origination and reversal of temporary differences	**(2,658)**	(459)
Taxation charge	**2,149**	7,128

5. DIVIDENDS

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

6. EARNINGS PER SHARE

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

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

7. SUBSEQUENT EVENTS

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

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

RESULTS

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

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

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

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

LIQUIDITY, FINANCIAL RESOURCES AND GEARING

The VSC Group has centralised funding management for all its operations at the group level. This policy focuses on managing financial risks, including interest rate and foreign exchange risks, while achieving better control of treasury operations and lower average cost of funds. Total interest bearing borrowings for the VSC Group, as at 30th September 2004 amounted to HK$1.1 billion of which 82% was repayable in one year, 5% was repayable between one and two years and 13% was repayable in three years. As compared to 31st March 2004, both current ratio and quick ratio improved to the level of 1.52 and 0.89, respectively. Gearing ratio (interest bearing short-term borrowings and long-term bank loan after netting off of cash and bank deposits divided by shareholders' equity) increased from 1.12 to 1.49 as a result of increase in bank borrowings. As a steel distributor and processor in expansion, the VSC Group requires a substantial amount of bank lines to finance its working capital need for inventory and accounts receivable. The VSC Group's trade financing remained primarily supported by its HK$1.7 billion bank trade facilities while the HK$0.25 billion syndicated bank loans obtained in October 2003 were more geared towards supporting the CAMP businesses. As in prior years, these lines were either secured by the VSC Group's inventories held under short-term trust receipts bank loan arrangement and/or corporate guarantees provided by VSC. All of the above borrowings in Hong Kong are subject to floating interest rates. Interest costs of the import bank loans were levied on inter-banks borrowing rates plus very competitive margin.

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

CHARGES ON ASSETS

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

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

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

CONTINGENT LIABILITIES

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

COMMITMENTS

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

REVIEW OF OPERATIONS

(1) China Advanced Materials Processing ("CAMP")

The businesses of CAMP operations of the VSC Group consist of processing of rolled steel in coil, manufacture of enclosure systems and distribution of engineering plastic resins and injection moulding machines. For the period under review, turnover and segment results of CAMP increased by 104% to HK$605 million, and 35% to HK$54 million, respectively. As a reflection of the VSC Group's execution of its core strategy as laid out before, CAMP's contribution to the VSC Group has and will become more and more significant, and for the period under review, almost accounted for 95% of the VSC Group's overall segment results due to the exceptional decline of profitability in CMG. Turnover of CAMP represented 31% of the VSC Group's total turnover as compared to 18% in the same period in 2003.

Coil Centre Operations

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

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

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

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

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

Enclosure Systems Manufacturing (Van Jia Yuen "VJY")

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

Plastics and Machinery

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

(2) Construction Materials Group ("CMG")

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

Steel Distribution

The major business unit of the VSC Group's CMG operations is steel distribution, which embodies stockholding business of rebars, structural steel and engineering products in Hong Kong, steel distribution in Mainland China together with distribution of steel products with its 18.9% investment in the iSteelAsia Group, and distribution of mainly domestic steel products through 66.7% owned joint venture, Shanghai Bao Shun Chang ("BSC").

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

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

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

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

Building Products

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

PROSPECTS

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

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

EMPLOYEE AND REMUNERATION POLICIES

As at 30th September 2004, the VSC Group employed 1,116 staff. Salaries and annual bonuses are determined according to positions and performance of the employees. The VSC Group provides on-the-job training and training subsidy to its employees in addition to retirement benefit schemes and medical insurance. Total staff costs including contribution to retirement benefit schemes incurred during the 6-month period under review amounted to approximately HK$37 million. During the 6-month period under review, no options have been offered and/or granted to its employees under the new share option scheme adopted since 12th November 2001.

AUDIT COMMITTEE

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

PUBLICATION OF FURTHER INFORMATION

Information required by paragraphs 46(1) to 46(6) 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
Andrew Cho Fai Yao
Chairman

Hong Kong, 22nd December 2004

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

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