



VAN SHUNG CHONG HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2000

UNAUDITED INTERIM RESULTS

The Board of Directors of Van Shung Chong Holdings Limited ("VSC") has the pleasure of presenting the unaudited condensed financial statements of VSC and its subsidiaries (the "VSC Group") as at and for the six months ended 30th September, 2000, together with comparative figures, as follows:

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the six months ended 30th September, 2000

	Notes	Six months ended	
		30th September, 2000	1999
		HK\$'000	HK\$'000
Turnover	2	1,243,537	875,977
Cost of sales		(1,096,408)	(759,443)
Gross profit	2	147,129	116,534
Selling and distribution expenses		(21,840)	(15,420)
General and administrative expenses		(56,003)	(35,554)
Profit from operations	3	69,286	65,560
Gain/Loss on investments, net	4	326,197	—
Loss on investment properties	5	(17,574)	—
Interest income		1,083	1,070
Interest expense		(6,203)	(4,330)
Share of profit/(loss) of associated companies		11	(587)
Profit before taxation		372,800	61,713
Taxation	6	(12,150)	(10,440)
Profit before minority interests		360,650	51,273
Minority interests		(129)	(1,024)
Profit attributable to shareholders		360,521	50,249
Dividends			
— cash dividend		(10,659)	(8,455)
— distribution in specie of shares in iSteelAsia.com Limited	4(iii)	(308,016)	—
Retained profit for the period		41,846	41,794
Earnings per share	7		
— Basic		101.4 cents	16.9 cents
— Diluted		99.4 cents	16.5 cents

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

As at 30th September, 2000

	Notes	As at 30th September, 2000	As at 31st March, 2000
		HK\$'000	HK\$'000
Non-current assets			
Property, plant and equipment	8	122,938	130,985
Investment properties		25,886	36,800
Website development costs		—	3,762
Investment in associated companies		3,140	18,561
Long-term investments	9	173,083	12,700
Total non-current assets		325,047	202,808
Current assets			
Inventories		285,815	425,686
Accounts receivable	10	413,696	361,262
Prepayments, deposits and other receivables		80,504	72,602
Due from related companies		29,385	—
Cash and bank deposits		52,362	156,761
Total current assets		861,762	1,016,311
Current liabilities			
Short-term bank borrowings		173,967	333,528
Bills payable		49,092	97,095
Accounts payable	11	91,574	80,593
Accrued liabilities and other payables		26,349	79,447
Promissory note		—	17,000
Proposed dividend		31,976	21,317
Taxation payable		15,542	11,564
Total current liabilities		388,500	640,544
Net current assets		473,262	375,767
Total assets less current liabilities		798,309	578,575
Non-current liabilities			
Deferred taxation		1,497	1,497
Minority interests		4,114	4,289
Net assets		792,698	572,789
Capital and reserves			
Share capital	12	35,529	34,088
Reserves	13	757,169	538,701
Shareholders' equity		792,698	572,789

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PREPARATION

These interim financial statements have been prepared in accordance with the principal accounting policies set out in VSC's 1999/2000 annual report and comply with Statement of Standard Accounting Practice 25 issued by the Hong Kong Society of Accountants and disclosure requirements set out in Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. TURNOVER

(a) The VSC Group's turnover and gross profit by product range is analysed as follows:

	Six months ended 30th September, 2000		Six months ended 30th September, 1999	
	Turnover	Gross Profit	Turnover	Gross Profit
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Steel: rebars, piling, engineering products and flat products	920,874	89,212	590,515	74,726
Kitchen cabinets and sanitary ware	32,999	7,891	14,116	3,766
Processing of rolled steel flat products	131,590	26,281	96,498	19,264
Engineering plastic resins	153,948	20,585	172,243	16,791
Machinery	2,886	1,920	1,797	1,179
Sales revenue	1,242,297	145,889	875,169	115,726
Rental income	383	383	292	292
Interest income from finance business	857	857	516	516
Total	1,243,537	147,129	875,977	116,534

(b) The VSC Group's turnover by geographical area for the six months ended 30th September, 2000 is analysed as follows:

By geographical area*	Turnover	Gross Profit
	HK\$'000	HK\$'000
Hong Kong		56.7%
Mainland China		43.3%
		100%

* Turnover by geographical area is determined mainly on the basis of the destination of shipments of merchandise and location of relevant activities.

The VSC Group's contributions to profit from operations and profit before taxation by product range and by geographical area have not been presented as they were generally in proportion to the distributions of turnover as set out above.

3. PROFIT FROM OPERATIONS

	Six months ended 30th September, 2000		1999	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit from operations has been arrived at after charging:				
Interest expense on short-term bank borrowings		6,203		4,330
Depreciation of property, plant and equipment		7,306		3,622

4. GAIN/LOSS ON INVESTMENTS

Gain/Loss on investments, net, is analysed as follows:

	Notes	Six months ended 30th September, 2000		1999	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Disposal gain on shares of unlisted companies	i	21,214			
Dilution gain on shares of iSteelAsia.com Limited	ii	58,551			
Gain on distribution in specie of shares in iSteelAsia.com Limited	iii	281,826			
Total gain on investments		361,591			
Provision for impairment in value of investment in a listed company and an associated company	iv	(35,394)			
		326,197			

Notes:

- i. In April 2000, the VSC Group disposed of certain equity interests in subsidiaries, namely MetalAsia Holdings Limited (from 100% to 44%) and iSteelAsia Holdings Limited (from 80% to 44%) and recognised a gain of approximately HK\$21,214,000.
- ii. In April 2000, the VSC Group's equity interest in iSteelAsia.com Limited was diluted from 44% to 38.72% as a result of the placing of new shares of iSteelAsia.com Limited to private/institutional investors. In this connection VSC recognised a dilution gain of approximately HK\$58,551,000. Also, the amount of the dilution gain was transferred from retained profit to capital reserve.
- iii. In April 2000, VSC distributed to its shareholders a dividend in specie in the form of 285,200,000 shares in iSteelAsia.com Limited on the basis of 1,562 shares of iSteelAsia.com Limited for VSC's shareholders holding 2,000 shares in VSC. The 285,200,000 shares in iSteelAsia.com Limited represented 19.61% of the equity of iSteelAsia.com Limited, and had a valuation of HK\$308,016,000 based on the offering price of HK\$1.08 per share on 14th April, 2000, the date of prospectus issued by iSteelAsia.com Limited in connection with its listing on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. In this connection, the VSC Group recognised a gain of approximately HK\$281,826,000.
- iv. During the six months ended 30th September, 2000, the VSC Group assessed the realisable value of its investment in a listed company and an associated company and the related receivable, and recorded a provision for impairment loss of approximately HK\$35,394,000, which included a deficit in the asset revaluation reserve of approximately HK\$13,746,000 transferred to the income statement.

5. LOSS ON INVESTMENT PROPERTIES

Loss on investment properties is analysed as follows:

	Six months ended 30th September, 2000	
	1999	2000
	HK\$'000	HK\$'000
Loss on disposal of an investment property	4,002	—
Provision for impairment in value of investment properties	13,572	—
	<u>17,574</u>	<u>—</u>

6. TAXATION

Taxation consisted of:

	Six months ended 30th September, 2000	
	1999	2000
	HK\$'000	HK\$'000
Current taxation		
— Hong Kong profits tax	12,135	10,440
— Mainland China enterprise income tax	15	—
	<u>12,150</u>	<u>10,440</u>

7. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30th September, 2000 was based on the unaudited consolidated profit attributable to shareholders of approximately HK\$360,521,000 (six months ended 30th September, 1999 — HK\$50,249,000) and on the weighted average number of approximately 355,547,000 shares (six months ended 30th September, 1999 — 297,271,000 shares) in issue during the period.

The calculation of diluted earnings per share for the six months ended 30th September, 2000 was based on the unaudited consolidated profit attributable to shareholders of approximately HK\$360,521,000 (six months ended 30th September, 1999 — HK\$50,249,000) and the diluted weighted average number of approximately 362,671,000 shares (six months ended 30th September, 1999 — 304,101,000 shares) in issue during the period. It has been calculated after taking into account all dilutive instruments outstanding as at 30th September, 2000. 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 7,124,000 shares (six months ended 30th September, 1999 — 6,830,000 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.

8. PROPERTY, PLANT AND EQUIPMENT

Movements were:

	Six months ended 30th September, 2000	Year ended 31st March, 2000
	HK\$'000	HK\$'000
Cost		
Beginning of period/year	157,262	114,160
Attributable to acquisition of subsidiaries	—	23,625
Additions	10,026	22,466
Transfer to investment properties	(10,372)	—
Disposals	(285)	(3,532)
Translation adjustments	(295)	543
End of period/year	<u>156,336</u>	<u>157,262</u>
Accumulated depreciation		
Beginning of period/year	26,277	19,220
Provision for the period/year	7,306	9,440
Write back on disposals	(157)	(2,496)
Translation adjustments	(28)	113
End of period/year	<u>33,398</u>	<u>26,277</u>
Net book value		
End of period/year	<u>122,938</u>	<u>130,985</u>
Beginning of period/year	<u>130,985</u>	<u>94,940</u>

9. LONG-TERM INVESTMENTS

Long-term investments consisted of:

	As at 30th September, 2000	As at 31st March, 2000
	HK\$'000	HK\$'000
Investment in shares listed in Hong Kong		
— At cost	42,722	17,193
— Change in fair value	124,745	(10,109)
	<u>167,467</u>	<u>7,084</u>
Unlisted investments, at cost	5,616	5,616
	<u>173,083</u>	<u>12,700</u>

The investment in shares listed in Hong Kong principally consists of the investment in iSteelAsia.com Limited (approximately 19.11%). These shares are stated in the balance sheet at the quoted market value as at 30th September, 2000. The surplus on the quoted market value over the investment cost of approximately HK\$138,491,000 in iSteelAsia.com Limited has been credited to the asset revaluation reserve. The impairment in value of another investment of approximately HK\$13,746,000 is considered by VSC's Directors to be other than temporary and has been recognised as an expense in the income statement.

The underlying value of long-term investments is, in the opinion of VSC's Directors, not less than the carrying value as at 30th September, 2000.

10. ACCOUNTS RECEIVABLE

Most of the VSC Group's turnover are made on an open account basis. Credit evaluations of customers are performed periodically to minimise any credit risk associated with customers. The ageing analysis of accounts receivable net of provision is as follows:

	As at 30th September, 2000	As at 31st March, 2000
	HK\$'000	HK\$'000
0 – 60 days	349,976	287,838
61 – 120 days	59,734	65,756
121 – 180 days	734	2,470
181 – 360 days	3,252	5,198
	<u>413,696</u>	<u>361,262</u>

11. ACCOUNTS PAYABLE

The ageing analysis of accounts payable is as follows:

	As at 30th September, 2000	As at 31st March, 2000
	HK\$'000	HK\$'000
0 – 60 days	78,579	74,724
61 – 120 days	9,889	5,592
121 – 180 days	391	277
181 – 360 days	2,715	—
	<u>91,574</u>	<u>80,593</u>

12. SHARE CAPITAL

	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)		
Beginning of period	340,882	34,088
Issued upon exercise of warrants (i)	23,935	2,394
Issued upon exercise of employee share options (i)	300	30
Repurchase of shares (ii)	(9,830)	(983)
	<u>355,287</u>	<u>35,529</u>

Notes:

i. During the six months ended 30th September, 2000, certain warrants and employee share options were exercised to subscribe for approximately 23,935,000 shares and 300,000 shares, respectively, of VSC at a consideration of approximately HK\$47,871,000 and HK\$340,000, respectively.

ii. During the six months ended 30th September, 2000, VSC repurchased 9,830,000 shares of its own shares at an aggregate consideration of approximately HK\$19,969,000. These shares were subsequently cancelled. The aggregate consideration for the repurchase was charged to retained profit, with the nominal value of the repurchased shares of HK\$983,000 was credited to capital redemption reserve. Details of such repurchases are as follows:

Month of repurchase	Number of shares repurchased	Price per share		Aggregate price paid HK\$
		Highest HK\$	Lowest HK\$	
April 2000	9,530,000	3.025	1.790	19,473,030
May 2000	88,000	1.480	1.470	130,200
June 2000	212,000	1.370	1.340	285,580

13. RESERVES

Movements were:

	Capital		Asset		Cumulative translation adjustments	Retained profit	Total
	Share redemption premium	Statutory reserve	Capital reserve	Asset revaluation reserve			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1st April, 2000	257,450	160	301	—	(10,109)	293,090	538,701
Premium arising from issue of shares upon							
— exercise of warrants	45,477	—	—	—	—	—	45,477
— exercise of employee share options	310	—	—	—	—	—	310
Repurchase of shares	—	983	—	—	—	(19,969)	(18,986)
Realisation of deficit of asset revaluation reserve for impairment of an investment	—	—	—	13,746	—	—	13,746
Surplus on revaluation of an investments, net	—	—	—	134,854	—	—	134,854
Transfer from retained profit to capital reserve	—	—	58,551	—	—	(58,551)	—
Translation adjustments	—	—	—	—	1,221	—	1,221
Retained profit for the period	—	—	—	—	—	41,846	41,846
As at 30th September, 2000	<u>303,237</u>	<u>1,143</u>	<u>301</u>	<u>58,551</u>	<u>138,491</u>	<u>(970)</u>	<u>256,416</u>

14. RELATED PARTY TRANSACTIONS

The VSC Group had the following transactions with related parties:

	Six months ended 30th September 2000	1999 HK\$'000
Metal Logistics Company Limited*		
— purchases made from the VSC Group	83,690	—
— commission for procurement services charged to the VSC Group	996	—
— interest expense paid to the VSC Group	124	—
iSteelAsia (Hong Kong) Limited*		
— administrative services fee paid to the VSC Group	180	—
— rental expense paid to the VSC Group	930	—
— interest expense paid to the VSC Group	26	—

* Both Metal Logistics Company Limited and iSteelAsia (Hong Kong) Limited are wholly owned and controlled by iSteelAsia.com Limited, a related company in which the VSC Group has a 19.11% equity interest.

RESULTS

The VSC Group achieved a profit attributable to shareholders of approximately HK\$361 million for the six months ended 30th September, 2000, representing a record growth of about 617% as compared to the six months ended 30th September, 1999. This is the fruit of the management's continued effort for the value creation for its shareholders materialising through the spin off of iSteelAsia.com Limited ("iSA"). Excluding such exceptional gains, profit from operations also rose 5.7% to approximately HK\$69.3 million against a 42% increase in turnover to approximately HK\$1,244 million.

Exceptional gains for the six months ended 30th September, 2000 included gains from the spin off exercise of iSA shares of approximately HK\$362 million in aggregate of which gain from

distribution in specie of shares in iSA to VSC's shareholders amounted to approximately HK\$282 million. In addition, the management has also adopted a very conservative approach to its investments and has made provision for impairment in value of investment in associated companies, long-term investments and investment properties together with loss on disposal of an investment property of approximately HK\$53 million. There was no such provision made for the six months ended 30th September, 1999.

Basic earnings per share, excluding exceptional gains and losses on investment in associated companies, long-term investments and investment properties, decreased by 13.6% to 14.6 cents; this is due to the increase of shares outstanding as a result of exercise of VSC's outstanding warrants (stock code: 923), exercise of employee share options and a share placement in March 2000. Interim cash dividend increased to 3.0 cents per share representing a cash dividend payout of 20.5% (excluding the exceptional gains/losses).

FINANCIAL ANALYSIS

The VSC Group continued to improve its liquidity and financial position. As compared to 31st March, 2000, both current ratio and quick ratio were increased to 2.22 and 1.48 from 1.59 and 0.92, respectively. Level of borrowings was also substantially reduced with gearing ratio (bank borrowings and bills payable divided by shareholders' equity) decreased to 0.28 from 0.75. The VSC Group's financing remained primarily supported by trade line facilities from banks. Shareholders' equity was increased from HK\$573 million to HK\$793 million, representing a 38.4% growth.

OPERATIONAL REVIEW

(1) Steel

Turnover from **steel division** recorded an impressive growth of 55.9% as a result of our acquisition and subsequent successful merger of another major player last year. As a result, the VSC Group is able to almost double our market share of the Hong Kong rebars stockholding market in Hong Kong to be over 60%. Despite the continued drop in selling price caused by recession in the Hong Kong real-estate market and keen competitions which adversely affected the gross margin, our steel division after the merger managed to achieve substantial economy of scale and savings through streamlining in inventory and logistics arrangements. Recognising the need to further enhance the efficiency of the operation, the VSC Group, currently engaged a renowned process improvement consultant company to improve the supply chain and sales fulfillment processes setting aggressive targets for further operational efficiency and cost savings. Uniquely structured, such engagement is also results oriented with the consultants' fee based on the improved efficiency and savings the consultants can invoke upon the VSC Group on a permanent basis.

The **cut and bend rebars operation** received encouraging acceptance and keen interests from major property developers and building contractors. Although the profit margin of the operation suffered from the initial set up costs and declining steel market prices, we continue to secure our market leader position and have been awarded 4 more targeted building projects. Satisfactory progress has also been made in developing other engineering products such as couplers and soil nails.

In line with Hong Kong Government's proposal to upgrade the building methods and construction quality/standard, the VSC Group decided to bring in the newest cut and bend technology from Switzerland and Italy, including OSCAM shearing machine and autobender, OEMB stirrup bending machines and constructed a state of the art processing facility in Hong Kong. Although the operation has to overcome higher rental prices, the on time next day delivery requirement prohibits the plant to be located in China. With the plant operating next to the VSC Group's existing godown, there are substantial synergies in cost saving. Due to the initial investment in the plant and the initial operation of the plant, we have incurred a net loss in the operation, which was consolidated under the steel operation. It is the management's belief that the net loss will narrow as the operation moves towards economy of scale and the construction industry viewed this value-added service as beneficial to all. There are tremendous savings from wastage, ease of operation and accountability. Moreover, the safety record for sites operating cut and bend offsite is better than otherwise. It is the management's belief that the operating profitability will be enhanced further when synergies from our recent merger and the continued operation of the cut and bend facility become more mature.

(2) Building products

Our two product lines — **sanitary ware and fitted kitchens** — achieved another period of remarkable growth in turnover and gross profit with 133.8% and 109.5% increase, respectively. Our efforts in prior years to build our market position and reputation have now been paid off to provide strong momentum of sustainable

growth in revenue stream. Our wide offerings of building products from leading suppliers including Laufen, Eljer, Twyford, Siematic and Eagle Brand coupled with our innovative and professional project management team also make us highly competitive in becoming the first-choice materials supplier to our well-established customer base.

(3) Coil centre

Coil centre reported a 36.4% rises in both turnover and gross profit. Continuous improvements were made to increase sales, streamline production and control costs. We have invested in machineries and commenced factory expansion to boost production capacity by 50% and such expansion is expected to be completed by February 2001. Leveraging on the management experience we have developed, we are also actively exploring opportunities to develop and operate additional coil centres to further strengthen our leading position.

(4) Plastics and machinery

The **plastic resin division** recorded a 22.6% increase in gross profit despite a 10.6% decline in turnover. This is the consequence of a shortage in supply and a change in strategy in the division by targeting high-growth potential industries of telecommunication and computer related products. The VSC Group is successful in capturing market share to supply plastic resin to such industries yielding enhanced profit margin.

The **machinery division** also recorded profitable results with 60.6% and 62.9% increases in turnover and gross profit, respectively. The VSC Group is finally successful in becoming a total solution provider to meet its customers' need.

(5) Other investments and associated companies

iSA, in its first half year of operation, remained highly focused on the execution of its core strategy and continued to deliver strong results against its vision of becoming the premier e-enabler and neutral market place for the Asian steel industry. The vertical portal ("vortal") is moving along its path of profitability through a continuous effort of increasing revenue and decreasing costs. With the establishment of an India domestic steel vortal, **iSteelIndia.com**, and the acquisition of a strategic interest in the London-based international steel trader, **Stemcor** and various partnerships with value-added services providers of news, finance, insurance, survey and logistics, **iSteelAsia.com** is well poised to leverage on its market leader position to achieve strong growth and offer values propositions to participants in steel industry.

Both the **Baosteel Jingchang joint venture** and **Dongguan Shatin pier operation** reported improvements in operational results. Revenues were increased with diversifying sources and operating costs were controlled and reduced. The **GFTZ fuel company** was however adversely affected by the prevailing rising trend of worldwide oil price and we have prudently made appropriate provision for this investment.

PROSPECTS

The VSC Group can look forward to an exciting year, benefiting from an expanding China economy, in which we are a niche player, and our increasing focus on value-added higher margin businesses. The growing market recognition of our online portal, **iSteelAsia.com**, further reinforces our leading position in the New Economy Age.

The merger of our steel stockholding business in November 1999 has provided us the economy of scale that we need to be more efficient and to expand our market share. Despite strong competition, our outstanding contracts on hand amount to over HK\$1.2 billion with awarded projects from Cyberport office building development to improvements to the Island Eastern Corridor Section and the KCRC East Rail extensions. Meanwhile, the Hong Kong Government's announcement of plan to build 730,000 housing units by 2008, or 91,250 units a year, will help fuel demand of our construction materials.

China's accession into the World Trade Organisation next year is expected to bolster both Hong Kong's and China's economies as overseas investment into China and international trade surge. With over 40% of our turnover from China, the VSC Group's industrial products businesses such as coil centre, plastics and machinery will greatly benefit from China's continuous economic growth.

We will continue to focus on developing value-added services and innovative products spearheaded by our engineering products and building products departments. As mentioned earlier, we are expanding the production capacity of the Dongguan coil centre and refocusing its customer base to enhance its profitability. We are also carefully exploring investment opportunities that will help to speed up our growth through the development of a cluster of coil centres in China. Furthermore, the VSC Group is always actively considering diversifying into related industries of high growth and high profit margins.

With the successful launch and growing industry acceptance of **iSteelAsia.com**, we are pleased to say that we will continue to leverage the VSC Group's core industry competence to explore other e-Commerce opportunities for our construction and industrial products. e-Commerce has helped us in improving our efficiency and Customer Relationship Management and enables us to retain existing customers and attract new ones. The success of **iSteelAsia.com** was all the more impressive and encouraging considering the very hostile condition faced by many Internet ventures in the second half of 2000.

As the largest rebar stockist in Hong Kong and a dominant player in southern China, the VSC Group is emerging as a one-stop solutions company for the construction industry and the first-choice material management provider for our existing customers. We will continue to control cost and improve earnings to deliver value to our shareholders as we have been doing in the past.

INTERIM DIVIDEND

The Directors have declared an interim dividend of 3.0 cents per share for the six months ended 30th September, 2000 payable to shareholders whose names appear on the Register of Members of VSC at the close of business on 5th January, 2001. Dividend warrants are expected to be despatched on or before 15th January, 2001.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of VSC will be closed from 4th January, 2001 to 5th January, 2001 (both dates inclusive) during which period no transfers of shares will be registered. In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with VSC's Registrars by not later than 4:00 p.m. (Hong Kong time) on 3rd January, 2001.

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 of Hong Kong Limited throughout the six months ended 30th September, 2000, 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.

AUDIT COMMITTEE

In line with the requirements set by The Stock Exchange of Hong Kong Limited, the VSC Group set up its Audit Committee in December 1998. The Committee consists of four non-executive directors, Mr. Ting Woo Shou, Kenneth as Chairman and Dr. Chow Yei Ching, Dr. Shao You Bao and Mr. Tsang Kwok Tai, Moses as members. Scopes of the work of the Audit Committee are defined and approved by the Board in relation to various internal control and audit issues with a view to further improving our corporate governance.

PURCHASE, SALE OR REDEMPTION OF SHARES AND WARRANTS

During the six months ended 30th September, 2000, VSC repurchased 9,830,000 shares of its own shares on The Stock Exchange of Hong Kong Limited, which were then cancelled. Please refer to Note 12 for details of the repurchase.

The aggregate consideration of HK\$19,969,000 paid by VSC, being the sum of the aggregate prices of shares repurchased of approximately HK\$19,889,000 and the relevant costs of approximately HK\$80,000, was charged against the retained profit and the nominal value of the shares repurchased of HK\$983,000 was transferred from share capital to the capital redemption reserve.

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

Hong Kong, 14th December, 2000.

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<http://companies.scmp.com/CompanyProfile.asp?StockCode=1001>