VAN SHUNG CHONG HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2001

The Board of Directors of Van Shung Chong Holdings Limited ("VSC") hereby announces the unaudited consolidated interim results of VSC and its subsidiaries (the "VSC Group") for the six months ended 30th September, 2001, together with comparative figures, as follows:

CONSOLIDATED INCOME STATEMENT

	Notes	**Six months ended 30th September, 2001**	2000
		HK$'000	*HK$'000*
		(unaudited)	(unaudited) *(Note 1)*
Turnover	2	**1,015,069**	1,243,537
Representing —			
Continuing operations		**1,003,521**	1,221,654
Discontinuing operations		**11,548**	21,883
Cost of sales		**(932,292)**	(1,097,404)
Gross profit	2	**82,777**	146,133
Selling and distribution expenses		**(8,701)**	(20,844)
Operating expenses		**(51,106)**	(75,821)
Profit from operations	3	**22,970**	49,468
Representing —			
Continuing operations		**24,992**	53,943
Discontinuing operations		**(2,022)**	(4,475)
(Loss) Gain on investments	4	**(517)**	326,197
Loss on investment properties		**—**	(17,574)
Interest income		**1,444**	1,083
Interest expense		**(4,824)**	(6,203)
Share of (loss) profit of associates		**(89)**	11
Profit before taxation		**18,984**	352,982
Taxation	5	**(3,998)**	(12,150)
Profit after taxation but before minority interests		**14,986**	340,832
Minority interests		**(458)**	(129)
Profit attributable to shareholders		**14,528**	340,703
Interim dividends			
— cash dividend		**6,390**	10,659
— distribution in specie of shares in iSteelAsia.com Limited		**—**	308,016
		6,390	318,675
Earnings per share	6		
— Basic		**4.1 cents**	95.8 cents
— Diluted		**4.1 cents**	93.9 cents

NOTES:

1. BASIS OF PRESENTATION AND PREPARATION AND PRIOR PERIOD ADJUSTMENTS

The unaudited consolidated income statement has been prepared in accordance with the principal accounting policies set out in VSC's 2000/2001 annual report except for changes set out below, and complies with Statement of Standard Accounting Practice ("SSAP") Number 25 issued by the Hong Kong Society of Accountants ("HKSA") and the disclosure requirements set out in Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Effective from 1st April, 2001, the following SSAPs issued by the HKSA were adopted by VSC and its subsidiaries:

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

Except for the prior period adjustments described below, the adoption of the above SSAPs has no material effect on amounts reported in the prior periods.

a. SSAP 9 (revised) — As a result of the change in accounting policy following SSAP 9 (revised), the VSC Group's liabilities as at 31st March, 2001 were decreased by approximately HK$81,716,000 while shareholders' equity was increased by approximately HK$81,716,000. The change has no impact on the results of operations of the VSC Group for the six months ended 30th September, 2000 and 2001.

b. SSAP 30 — Prior to 1st April, 2001, goodwill arising from acquisition of companies was eliminated immediately against available reserves. Starting from 1st April, 2001, goodwill is capitalised in the balance sheet and amortised to the results of operations in accordance with the pattern of the related economic benefits flowing to the VSC Group. This change in accounting policy has been applied retrospectively. As a result of this change in accounting policy, VSC has reinstated goodwill of approximately HK$60,056,000. The amortisation of goodwill for the six months ended 30th September, 2000 and 2001 amounted to approximately HK$19,818,000 and nil, respectively.

2. SEGMENT INFORMATION

The VSC Group's turnover, gross profit and contribution to profit attributable to shareholders by principal activities and geographical area are analysed as follows:

	Six months ended 30th September, 2001			Six months ended 30th September, 2000		
	Turnover	**Gross profit**	**Contribution to profit attributable to shareholders**	Turnover	Gross profit	Contribution to profit attributable to shareholders
By principal activities —	***HK$'000***	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Steel: rebars, piling and flat products	**793,256**	**46,338**	**24,649**	898,991	89,802	29,800
Sanitary ware and kitchen cabinets	**17,049**	**4,325**	**(2,834)**	32,999	7,891	1,349
Processing of rolled steel flat products	**102,230**	**17,306**	**10,198**	131,590	25,285	13,354
Plastics and machinery	**87,567**	**11,356**	**6,562**	156,834	22,505	14,813
Investment income	**3,419**	**3,419**	**704**	1,240	1,240	(4,015)
Total continuing operations	**1,003,521**	**82,744**	**39,279**	1,221,654	146,723	55,301
Discontinuing operations	**11,548**	**33**	**(2,022)**	21,883	(590)	(5,527)
Unallocated corporate (expenses) income			**(22,729)**			290,929
	1,015,069	**82,777**	**14,528**	1,243,537	146,133	340,703

	Six months ended 30th September, 2001			Six months ended 30th September, 2000		
	Turnover	**Gross profit**	**Contribution to profit attributable to shareholders**	Turnover	Gross profit	Contribution to profit attributable to shareholders
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
By geographical area* —						
Hong Kong						
— continuing operations	**600,326**	**46,643**	**28,288**	683,631	94,012	60,349
— discontinuing operations	**11,548**	**33**	**(2,022)**	21,883	(590)	(5,527)
	611,874	**46,676**	**26,266**	705,514	93,422	54,822
Mainland China						
— continuing operations	**403,195**	**36,101**	**10,991**	538,023	52,711	(5,048)
Unallocated corporate (expenses) income			**(22,729)**			290,929
	1,015,069	**82,777**	**14,528**	1,243,537	146,133	340,703

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

3. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging/crediting:

	Six months ended 30th September, 2001	2000
	HK$'000	*HK$'000*
Interest expense on short-term bank borrowings	**4,824**	6,203
Depreciation of property, plant and equipment	**7,023**	7,306
Amortisation of goodwill	**—**	19,818
Loss (Gain) on disposal of property, plant and equipment	**66**	(1)

4. (LOSS) GAIN ON INVESTMENTS

(Loss) Gain on investments, net, is analysed as follows:

	Six months ended 30th September, 2001	2000
	HK$'000	*HK$'000*
Gain on investments	**—**	361,591
Provision for impairment in value of investment in a listed company	**(517)**	(35,394)
	(517)	326,197

5. TAXATION

Taxation consisted of:

	Six months ended 30th September, 2001	2000
	HK$'000	*HK$'000*
Current taxation		
— Hong Kong profits tax	**3,992**	12,135
— Mainland China enterprise income tax	**6**	15
	3,998	12,150

6. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30th September, 2001 was based on the unaudited consolidated profit attributable to shareholders of approximately HK$14,528,000 (six months ended 30th September, 2000 — HK$340,703,000) and on the weighted average number of approximately 355,282,000 shares (six months ended 30th September, 2000 — 355,547,000 shares) in issue during the period.

The calculation of diluted earnings per share for the six months ended 30th September, 2001 was based on the unaudited consolidated profit attributable to shareholders of approximately HK$14,528,000 (six months ended 30th September, 2000 — HK$340,703,000) and the diluted weighted average number of approximately 356,929,000 shares (six months ended 30th September, 2000 — 362,671,000 shares) in issue during the period. It has been calculated after taking into account all dilutive instruments outstanding as at 30th September, 2001. The effect of the dilutive potential ordinary shares resulting from the exercise of the outstanding employee share options on the weighted average number of shares in issue during the period was approximately 1,647,000 shares (six months ended 30th September, 2000 — 7,124,000 shares), which were deemed to have been issued at no consideration if all outstanding employee share options had been exercised on the date when the employee share options were granted.

7. TRANSFER TO CAPITAL REDEMPTION RESERVE

During the six months ended 30th September, 2001, VSC repurchased 310,000 shares at an aggregate consideration of approximately HK$307,000 (six months ended 30th September, 2000 — HK$19,969,000). The aggregate cost of the repurchase of shares of approximately HK$307,000 (six months ended 30th September, 2000 — HK$19,969,000) was transferred from retained profit to capital redemption reserve.

RESULTS

The VSC Group's turnover for the six months ended 30th September, 2001 was HK$1,015 million, a decrease of 18% compared with the same period in 2000. Gross profit and gross margin were reduced by 43% and 31%, respectively. Profit from continuing operations decreased 54% from HK$53.9 million in the previous period to HK$25.0 million in this reporting period. Profit attributable to shareholders was HK$14.5 million, a decrease of 96%. Excluding the one-time gains realised by the spin-off of iSteelAsia.com Limited ("iSA") and loss on investment properties (together referred as "Exceptional (Losses) Gains") in the previous period, profit attributable to shareholders dropped by 53%.

Basic earnings per share, excluding Exceptional (Losses) Gains, decreased by 53% to 4.23 cents. Interim cash dividend decreased to 1.8 cents per share representing a cash dividend payout (excluding Exceptional (Losses) Gains) of 42.5% (2000 — 33.2%). A bonus issue of warrants was also made on November 2001 to the shareholders in the proportion of one warrant for every ten shares then held.

FINANCIAL ANALYSIS

Benefiting from its continuous process improvement programme embarked on since late 2000, in particular the supply chain and sales fulfillment, the VSC Group continued to maintain a very healthy liquidity and financial position. As compared to 31st March, 2001, both current ratio and quick ratio were slightly decreased but still kept at a healthy level of 2.05 and 1.46. Due to slower turnaround of contracted projects, level of bank borrowings was relatively higher and gearing ratio (bank borrowings and bills payable divided by shareholders' equity) accordingly increased to 0.41 from 0.22. The VSC Group's trade financing remained primarily supported by trade line facilities from banks. As in prior years, these lines were secured by the VSC Group's inventories held under short term trust receipts loan arrangement and corporate guarantees by VSC. Interest costs of the import bank loans are levied on US dollar LIBOR/SIBOR basis with very competitive margin. With its increasing business expansion in Mainland China, the VSC Group is also working with several major domestic banks in arranging local currency financing for its businesses and operations in Mainland China.

CHARGES ON ASSETS

The VSC Group had inventories held under short term trust receipts bank loan arrangement and bank deposits of approximately HK$5.8 million pledged for the deposit system required by Mainland China customs office for the Dongguan coil center.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The VSC Group's businesses were primarily transacted in Hong Kong dollar, US dollar, Renminbi ("RMB") and several European currencies. As in prior years, the current peg system in Hong Kong had minimised the VSC Group's exposure in US dollar. The VSC Group's investments and properties in Mainland China amounted to approximately HK$50 million as at 30th September, 2001. As stated above, the VSC Group is aiming to obtain RMB financing to further mitigate its currency exposure on its domestic operation. Transaction values involving European currencies were relatively not significant and hedging by forward contracts had been used as the main tool to reduce such foreign exchange exposure.

CONTINGENT LIABILITIES

As at 30th September, 2001, the VSC Group had contingent liabilities in the form of guarantees of approximately HK$9 million in respect of bank loan, rental deposit and performance bonds.

REVIEW OF OPERATIONS

(1) Construction materials

The VSC Group's construction materials businesses comprise distribution of steel and building products primarily to developers and contractors for construction works in Hong Kong. During the period under review, the local economy depression had resulted in decreased demand for new construction projects. The shrinking property market continued pressuring the rebars and other construction materials markets. For instance, annual consumption forecast of rebars for the Year 2001/2002 drops to 0.8 million tonnes from 1.2 million tonnes in previous year.

Given such adverse market conditions, turnover and profit contribution from the **steel department** declined by 12% and 17%, respectively. The delay in construction of a number of infrastructure projects, the sluggish public and private property sectors, coupled with wet weather in this past summer, had all caused a reduction in the turnover. Gross profit was pressed down by "cut throat" competition, resulting in a very slim margin.

Operationally, the VSC Group continued to enhance logistics and warehousing arrangement to combat the competition and pricing pressure. The VSC Group had also undergone vigorous cost saving measures and logistics improvement to successfully reduce godown rental expenses, increase "Just-in-time" or "Direct pier-to-site" deliveries, reduce transportation and inventory handling costs, and reduce stock level.

Following the discontinuance of Cut and Bend operation in early 2001, the VSC Group repositioned its strategy of total solution provider for its construction materials customers. Considerable efforts had been made in resources rationalisation and reallocation. The VSC Group is now determined to focus on developing the couplers and soil nails businesses, diversifying its range of piling products, including construction beams and sheet piles.

Performance of the **building products department** was a bit disappointing with the department recording a 48% decrease in turnover and suffering loss of HK$2.8 million in the reporting period. But in Year 2000/2001, the VSC Group had been awarded various prestigious kitchen cabinets and bathroom furniture projects, which in aggregate represent more than 5,900 kitchens and 3,000 bathrooms and worth over HK$130 million. However, during the period under review, no turnover could be recognised from these sizeable projects due to delay in construction schedule. It is estimated that these awarded projects would be completed and could render considerable profit contribution in coming 18 months.

The Government had recently suspended sale of Home Ownership Scheme ("HOS") flats for ten months and capped annual sales of HOS units at 9,000 thereafter till 2006. This revised policy had adversely affected the sanitary ware products business in the reporting period and the situation was likely to persist. To maintain its competitiveness and capture more market share, the VSC Group further diversified its list of high-quality products and explored for additional sources of new Brand products. Adding to the list was the exclusive distributorship of Rover artificial marble from Italy. Most of the Rover products had been widely used in shopping arcades, office buildings and hotels, and could be extended to residential buildings. The VSC Group had also secured distributorship of reputable Toto sanitary ware products from Japan and high-end Hansgrohe sanitary fittings and accessories from Germany. A retail shop and showroom is also planned to open in early 2002 to arouse market awareness, enhance company image and offer an additional channel to customers to feel the products and services. The VSC Group's wide offerings of building products from leading suppliers including Laufen, Toto, Hansgrohe, SieMatic and Rover coupled with its strong financial backing, well-established customer base and professional team could enable its pursuit of profitability in this difficult market.

(2) Industrial products

The VSC Group's industrial products businesses include processed rolled steel flat products of its Dongguan coil centre, engineering plastic resins and injection moulding machines, as well as its newly set up Shenzhen factory for manufacturing enclosure systems. Such industrial products are widely used by various Hong Kong-based, Taiwan-based and local PRC industrial manufacturers of white goods, electrical appliances and computers for export to the US and European markets and by the key domestic telecommunication equipment manufacturers for meeting the local demand. The ongoing slowdown in worldwide economy since 2001, notably in the US, had lowered the demand of our industrial customers' products, which thus adversely affected the growth performance of our industrial products in the period under review.

Dongguan coil centre recorded a relatively smaller decrease under such a difficult operating environment with a 22% decrease in turnover and a 24% down in profit contribution. The decrease in turnover was mainly caused by the declining steel market price whereas the delivered tonnage remained at similar level as compared to the previous period. Targeting on the high-volume customers such as computer and audio-visual products manufacturers, the coil centre successfully maintained the production tonnage by becoming these customers' main supplier. Extensive improvements had also been made to the production logistics and stock management to enhance its competitiveness.

Plastics and machinery department was more adversely affected by the marco economy and recorded a 44% decrease of turnover and a 56% down in profit contribution. Due to the drop in consumer products demand in the US, our customers had mostly scaled back production orders, which cut both the volume and price of the plastic resins. The market price dropped so significantly that some of our suppliers even attempted to directly deal with the customers to maintain its profit margin. We had suffered from such loss of business in the period under review but had actively developed other brands of plastic resins as well as the domestic use market in Mainland China for recapturing the market share.

The new **Van Jia Yuan enclosure systems manufacturing** facility in Shenzhen was officially opened in November 2001. The enclosure systems form an integral part to house various telecommunication and computer equipments for use of fixed line and mobile phone networks with widespread application to GSM, CDMA, GPRS and other communication systems, as well as optical transmission and power supply system. The new plant, equipped with advanced machineries and production lines, is well positioned to serve the ever-increasing demand of telecommunication and IT sectors in Mainland China.

(3) Other investments and associated companies

Despite the poor economic conditions, **iSA** had managed to achieve an encouraging financial result. iSA and its subsidiaries (the "iSA Group") continued to move along its path of profitability with increased turnover and reduced net loss during the period under review. The iSA Group's mandate and core competence remained to focus in providing value-added services to customers in the steel industry. This entailed providing services that range from generating additional marketing and distribution channels to suppliers to providing e-Commercialisation services (e.g. Enterprise Resources Planning ("ERP") system implementation) to customers in the steel industry. During the period under review, the iSA Group had continued to expand its presence in Mainland China and regional offices had been opened in Beijing, Shanghai, Guangzhou and Tianjin. With the successful accession to the World Trade Organisation ("WTO") and the successful bid to host the 2008 Olympic Games, business opportunities in Mainland China are attractive. The strategic acquisition of approximately 0.23% of AcrossAsia Multimedia Limited ("AAM"), another GEM-listed company, in August 2001 by the iSA Group enabled it to further develop new business initiatives as both iSA and AAM are involved in complementary aspects of Internet related business.

The **Baosteel Jingchang joint venture** continued to increase its sales of processed steel to manufacturers of computer and electric appliances. Profitability was however adversely hit by the decline in flat product price as well as keen competition. The **Dongguan pier operation** also suffered from a reduction in volume of imported goods and containers handled, primarily due to the increase in stockpiles of the customers and the downturn in US economy. Both operations thus recorded slight losses in the period under review. The **GFTZ fuel company** achieved steady progress in its operational results and had also made repayments to its outstanding guaranteed return receivables. The VSC Group would closely monitor performance of these investments and associated companies in a proactive manner.

PROSPECTS

It had been the most difficult period the VSC Group had encountered since its listing in 1994. The slowdown in both the domestic and global market coupled by the September 11 events in the US had further brought about deepening uncertainties on both Hong Kong and Mainland China.

For the construction materials operation, the Government is already investing over HK$400 billion in more than 1,600 projects in infrastructure development, most of which are due to be completed within the next nine years. Major works in progress include Castle Peak Road improvements, Phase I of Hong Kong Disneyland and the Science Park in Pak Shek Kok. The two railway corporations are currently working on six projects — West Rail, the MTR Tseung Kwan O Extension, the Ma On Shan Line, the KCR Extension to Tsim Sha Tsui, the Penny's Bay Rail Link and the Sheung Shui to Lok Ma Chau Spur Line. Today, the VSC Group has contracts-on-hand worth around HK$850 million, of which a substantial portion is on the above-mentioned infrastructure development and railways projects. Despite the economic uncertainties, the management thus still remains cautiously optimistic about the future prospect of the construction materials businesses in view of the low interest borrowing rate, the attractive financing packages offered to home purchasers, and several upcoming large scale projects such as Route 9 Tsing Yi via Ngong Shuen Chau to Sha Tin Section, Route 10 linking North Lantau and Yuen Long Highway, Deep Bay Link, Shenzhen-Hong Kong Western Corridor and the ongoing infrastructure projects invested by the Government and the two railway corporations.

As for the industrial products operation, China's recent accession to the WTO is expected to change the business landscape and open unprecedented assess to those high-growth industries and markets. The VSC Group had planned and positioned itself well in advance in these sectors to capitalise this unique opportunity. The VSC Group will continue to reinforce its total solution provider strategy by sound account management to promote cross selling between coil centre and plastics customers and increasing its organic growth. Additional efforts will be made in the form of investment and/or acquisition to further expand the existing VSC offerings to serve the customers in Mainland China. The new enclosure systems manufacturing business will grasp the vast opportunities from the high-growth telecommunication industries with a projected annual growth rate of over 20% through 2005. The VSC Group would also explore to develop total solutions for its telecommunication customers by extending to producing and assembly of other related network support equipments.

As in before, the VSC Group is committed to meet the challenges ahead. We will deploy our resources to develop high-yield markets and take stringent cost control measures in delivering values to the shareholders.

The management of VSC is highly appreciative of the support and confidence its shareholders placed on them. The management is committed to continue to improve the profitability of the VSC Group's operations, while exploring different alternatives to enhance the value of the VSC Group.

EMPLOYEE AND REMUNERATION POLICIES

As at 30th September, 2001, the VSC Group employed 360 staff. Salaries and annual bonuses are determined according to positions and performance of the employees. The VSC Group provides on-the-job training to its employees in addition to retirement benefits schemes and medical insurance. Total staff costs including contribution to retirement benefit schemes incurred during the 6-month period under review amounted to approximately HK$25 million. To enable its employees to participate in the growth of the VSC Group, VSC adopted a share option scheme on 22nd January, 1994 (the "Old Share Option Scheme"). Details of the Old Share Option Scheme were disclosed in the 2000/2001 annual report of VSC. In compliance with the amendments to the Listing Rules, VSC had terminated the Old Share Option Scheme with effect from 12th November, 2001. No further options will be granted thereunder but in other respects, the provisions of the Old Share Option Scheme remain in force and all options granted prior to the termination continue to be valid and exercisable in accordance therewith. A new share option scheme had been adopted since 12th November, 2001 (the "New Share Option Scheme"). As at the date of this announcement, no options have been offered and/or granted to any participants thereunder the New Share Option Scheme.

INTERIM DIVIDEND

The Directors have declared an interim dividend of 1.8 cents per share for the six months ended 30th September, 2001 payable to shareholders whose names appear on the Register of Members of VSC at the close of business on 18th January, 2002. Dividend warrants are expected to be despatched on or before 23rd January, 2002.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of VSC will be closed from 16th January, 2002 to 18th January, 2002 (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 in Hong Kong, Central Registration Hong Kong Limited by not later than 4:00 p.m. (Hong Kong SAR time) on 15th January, 2002.

AUDIT COMMITTEE

In compliance 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 three non-executive directors, Mr. Ting Woo Shou, Kenneth as Chairman and Dr. Chow Yei Ching and Dr. Shao You Bao as members. Scope of the work of the Audit Committee is defined and approved by the Board in relation to various internal control and audit issues with a view to further improving our corporate governance. These unaudited consolidated interim financial statements for the six months ended 30th September, 2001 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 will be published on the website of The Stock Exchange of Hong Kong Limited in due course.

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

Hong Kong, 21st December, 2001

http://www.vschk.com
http://www.isteelasia.com