VSC万顺昌

# VAN SHUNG CHONG HOLDINGS LIMITED

*(Incorporated in Bermuda with limited liability)*

## INTERIM RESULTS ANNOUNCEMENT
## FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2003

The Board of Directors of Van Shung Chong Holdings Limited ("VSC" or the "Company") hereby announces the unaudited condensed interim results of VSC and its subsidiaries (the "VSC Group") for the six months ended 30th September 2003, together with comparative figures, as follows:

**CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT**
*For the six months ended 30th September 2003*

| | Note | Six months ended 30th September 2003 HK$'000 (Unaudited) | 2002 HK$'000 (Unaudited) |
|---|---|---|---|
| Turnover | 2 | **1,605,677** | 1,270,354 |
| Cost of sales | | **(1,488,922)** | (1,160,331) |
| Gross profit | | **116,755** | 110,023 |
| Other revenue | | **6,981** | 5,008 |
| Selling and distribution expenses | | **(9,424)** | (8,816) |
| General and administrative expenses | | **(53,490)** | (60,496) |
| Gain on disposal of an investment property | | **1,686** | — |
| Operating profit | 3 | **62,508** | 45,719 |
| Finance cost | | **(7,956)** | (4,114) |
| Profit before taxation | | **54,552** | 41,605 |
| Taxation | 4 | **(7,128)** | (690) |
| Profit after taxation but before minority interests | | **47,424** | 40,915 |
| Minority interests | | **(2,073)** | (3,666) |
| Profit attributable to shareholders | | **45,351** | 37,249 |
| Dividends | | **9,831** | — |
| Earnings per share | 5 | | |
| — Basic | | **14.5 cents** | 10.5 cents |
| — Diluted | | **14.2 cents** | 10.5 cents |

*Notes:*

1. **BASIS OF PRESENTATION AND ACCOUNTING POLICIES**

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 2003 except that the VSC Group has changed an accounting policy following its adoption of Hong Kong Statement of Standard Accounting Practice ("SSAP") 12 (revised) "Income taxes" issued by the Hong Kong Society of Accountants which is effective for accounting period commencing on or after 1st January 2003. The adoption of the SSAP 12 (revised) represents a change in accounting policy which has been applied retrospectively. The adoption of the SSAP 12 (revised) 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 steel flat 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:

| | CAMP HK$'000 | CMG HK$'000 | Other operations HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **For the six months ended 30th September 2003** | | | | |
| Turnover | | | | |
| Sales to external customers | **295,956** | **1,308,416** | **1,305** | **1,605,677** |
| Segment result | **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 cost | | | | **(7,956)** |
| Taxation | | | | **(7,128)** |
| Minority interests | | | | **(2,073)** |
| Profit attributable to shareholders | | | | **45,351** |
| For the six months ended 30th September 2002 | | | | |
| Turnover | | | | |
| Sales to external customers | 249,601 | 1,018,716 | 2,037 | 1,270,354 |
| Segment result | 36,556 | 27,121 | 794 | 64,471 |
| Other revenue | 177 | 14 | 4,817 | 5,008 |
| Unallocated corporate expenses | | | | (23,760) |
| Operating profit | | | | 45,719 |
| Finance cost | | | | (4,114) |
| Taxation | | | | (690) |
| Minority interests | | | | (3,666) |
| Profit attributable to shareholders | | | | 37,249 |

3. **OPERATING PROFIT**

Operating profit is stated after charging and crediting the following:

| | Six months ended 30th September 2003 HK$'000 | 2002 HK$'000 |
|---|---|---|
| **Charging** | | |
| Depreciation of property, plant and equipment | **8,373** | 8,117 |
| Amortisation of goodwill | **925** | 925 |
| Staff costs | **27,124** | 25,481 |
| Loss on disposal of property, plant and equipment | **34** | — |
| **Crediting** | | |
| Gain on disposal of property, plant and equipment | **—** | 80 |
| Gain on disposal of an investment property | **1,686** | — |

4. **TAXATION**

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) 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 2003 HK$'000 | 2002 HK$'000 |
|---|---|---|
| Current taxation: | | |
| — Hong Kong profits tax | **6,054** | 4,034 |
| — Overseas taxation | **1,533** | 945 |
| — Over-provisions in prior years | **—** | (4,289) |
| Deferred taxation relating to the origination and reversal of temporary differences | **(459)** | — |
| | **7,128** | 690 |

5. **EARNINGS PER SHARE**

The calculations of basic and diluted earnings per share for the six months ended 30th September 2003 are based on the VSC Group's profit attributable to shareholders of approximately HK$45,351,000 (six months ended 30th September 2002: HK$37,249,000).

The calculation of basic earnings per share for the six months ended 30th September 2003 is based on the weighted average number of approximately 312,020,000 (six months ended 30th September 2002: 354,979,000) ordinary shares in issue during the period. The calculation of diluted earnings per share for the six months ended 30th September 2003 is based on approximately 319,456,000 (six months ended 30th September 2002: 355,201,000) ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average number of approximately 7,436,000 (six months ended 30th September 2002: 222,000) ordinary shares deemed to be issued at no consideration if all outstanding warrants and employee share options had been exercised.

6. **SUBSEQUENT EVENT**

On 27th October 2003, the VSC Group obtained a HK$250 million three-year revolving credit and term loan facility from a syndicate of nine banks.

### RESULTS

The VSC Group's performance for the first half of the fiscal year was encouraging. Turnover for the six months ended 30th September 2003 was HK$1,606 million, an increase of 26% compared with the same period in 2002. 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 China Advanced Materials Processing ("CAMP") operations growing by 19% and Construction Materials Group ("CMG") operations growing by 28%, 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, normally transactions are done on a back-to-back arrangement and cash on delivery basis, resulting in a lower margin than the rest of the business units within the VSC Group. As such, overall gross margin of the VSC Group decreased from 8.7% to 7.3%. With the VSC Group's continuous efforts in cost savings, general and administrative expenses were reduced by approximately HK$7 million or a decrease of 12% from same period last year. Savings mainly stem from the reduction in office rental costs and professional fees. Profit attributable to shareholders was HK$45.4 million, an increase of 22% as compared to the six months ended 30th September 2002.

Basic earnings per share increased by 38% to HK14.5 cents due to the 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. Interim dividend of HK3.1 cents per share was declared for the period (2002: Nil).

### FINANCIAL ANALYSIS

After the rationalisation exercises underwent by the VSC Group over the past few years, the VSC Group essentially consists of two main divisions - CAMP and CMG. Although both divisions focus on the VSC Group's core competences in steel, they are quite distinct in their business models. The CMG division, which primarily involves in the distribution of steel products to end users, is a high volume turnover business with relatively thinner but healthy margin. On the other hand, the CAMP division is predominantly a value added physical processing in factories business that generates much higher margin, but requiring strong capital investment for growth. Despite the differences of the two distinctly different business models, the VSC Group as a whole continued to maintain a healthy liquidity and financial position. As compared to 31st March 2003, both current ratio and quick ratio have slightly decreased but were still kept at a healthy level of 1.35 and 0.90. Gearing ratio (interest bearing short-term borrowings and long-term bank loan divided by shareholders' equity) increased from 1.17 to 1.30 which is mainly attributable to the growth of businesses. 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 increases in inventories and accounts receivable of the increased business activities. As such, the strong cash flow generated from the VSC Group's operations continues to forge the VSC Group's expansion in its business. The VSC Group's trade financing remained primarily supported by its HK$1.5 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 businesses 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 businesses 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. The facility will further strengthen the financial position and enable the VSC Group to be more flexible in capturing market opportunities in its business growth in China. These additional resources will be used to expand the VSC Group's business in China, especially for the CAMP division.

### CHARGES ON ASSETS

The VSC Group had certain inventories held under short-term trust receipts bank loan arrangements and bank deposit of approximately HK$2 million and inventory of approximately HK$13 million pledged for certain of its RMB bank loans.

### EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The VSC Group's businesses were primarily transacted in Hong Kong dollar, US dollar, RMB and Euro dollar. The VSC Group's cash and bank deposits, including pledged bank deposit, were mainly denominated in Hong Kong dollar, US dollar and RMB. Taking advantage of recent weak US dollar against HK dollar, the VSC Group had hedged US$22.2 million forward contracts at favourable rates. The VSC Group will monitor closely the US dollar exchange rate and make necessary forward contracts to reduce foreign exchange exposure. The VSC Group's investments and properties in Mainland China amounted to approximately HK$106 million as at 30th September 2003. As stated above, the VSC Group is aiming to obtain more RMB financing to further mitigate its currency exposure on its domestic operations in Mainland China. Transaction values involving Euro dollar were relatively insignificant and hedging by forward contracts had been used as the main tool to reduce such foreign exchange exposure.

### CONTINGENT LIABILITIES

As at 30th September 2003, the VSC Group had contingent liabilities in the form of guarantees of approximately HK$19 million.

### COMMITMENTS

There was no material change in commitments since 31st March 2003.

### 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 operating profit before unallocated corporate expenses of CAMP as a whole increased by 19% to HK$296 million, and 9% to HK$40 million, respectively. On a return to equity basis, the CAMP operations continue to be the growth engine for the VSC Group, contributing about half of the operating profit on only 18% share of the VSC Group's total turnover.

*Coil Centre Operations*

The coil centre operations achieved an overall 13% incremental increase in turnover but an 18% decrease in gross profit. Affected by the SARS epidemic during the first quarter, sales volume in tonnage for the Dongguan coil centre had been adversely affected as customers' orders were delayed or even cancelled. Since offshore customers were refraining from traveling to Mainland China due to SARS, such delay/cancellation were thus caused by the temporary slowdown of orders from the overseas customers of the OEM vendors or manufacturers of international brand names we served. Through the persistent effort of our sales team and the earlier than expected contribution of Tianjin coil centre since July 2003, the coil centre operations' overall sales turnover achieved for the period still amounted to HK$153 million.

As stated above, **Dongguan Coil Centre ("DGCC")** faced certain challenges at the beginning of this financial year, as a result of the outbreak of SARS. Both the market price and volume of orders declined. Yet sales volume started increasing quickly and price recovered in the second quarter, as demand in home appliances, computers and electronics goods resumed when the peak order season started towards the end of August and the SARS ended. During this period, DGCC continued to improve its production capacity and efficiency. An automated slitting machine was added in the first quarter to boost production capacity by 30%. DGCC was also awarded the status of New and High Technology Enterprise as recognition of its high productivity. The management targets to use DGCC as the base and continue to develop the best internal practices of process in terms of procedures, manuals and computer system and then apply such best practices to all its other future coil centre operations under a centralised enterprise standard of consistent quality, management, customer service and profitability.

**Tianjin Coil Centre ("TJCC")** began first phase operation and commenced production in the second quarter, providing a wide range of steel processing services to customers including toll processing and merchandising. Total capital investments are expected to be amounted to about HK$20 million. Since its commencement of operation in July 2003, TJCC has successfully developed strategic partnership with a renowned domestic home appliances manufacturer, which has production facilities in various provinces, as well as supplying to a large Korean electronics customer. It has also started to capitalise on cross-selling synergy by doing business with some of the customers of DGCC, which also have production bases in northern China. Although the turnover for the period under review only amounted to HK$5.4 million, TJCC has successfully achieved the operational breakeven position in September 2003, just two months after commencement of operation.

The joint venture with Baosteel and Mitsui Company, **Baosteel Jingchang joint venture** in Nansha continued to grow satisfactorily. Turnover for the half year reached RMB257 million; already exceeding last year's annual sales. Net profit reached RMB6.3 million as compared to RMB1.1 million last period. Dividend received from the joint venture amounted to RMB0.4 million during the period.

*Enclosure Systems Manufacturing*

The performance of **VJY enclosure systems manufacturing ("VJY")** for the first half of 2003/04 is very impressive. Turnover increased 162% to HK$51 million as compared to the same period in 2002/03. Gross margin increased one-third to 25% and gross profit grew 257%. Operating expenses were kept at 2002/03 levels and as a whole, VJY is able to report an operating profit before unallocated corporate expenses of HK$6.5 million.

Unlike the DGCC or TJCC operations, VJY is a significantly more sophisticated (both in terms of machinery and employee skill sets) steel processing centre. The customers for VJY are a lot more demanding in their vetting process, and substantial resources were invested by the VSC Group in the initial start-up phase of VJY over the last couple of years. Now VJY is beginning to reap the harvest of these product and customer development efforts made in prior years. After building a substantial portfolio of approved product prototypes, VJY now becomes one of the key strategic suppliers of customised enclosure systems for leading PRC telecommunication equipment providers, like Huawei and Zhongxing. Sales revenue has been increased rapidly as a result of mass production of a variety of product prototypes after successful contract bidding. Moreover, VJY has made sound progress in business development for another renowned U.S. power supply equipment provider, Emerson as well as for automobile parts manufacturing for Isuzu's Guangzhou plant and ATM machine casing production for a leading Japanese manufacturer. VJY has also developed standard enclosure systems supplying to a number of local IT/industrial equipment providers.

Operationally, VJY focused to strengthen its technical capability. Tailor-making the production flow for better efficiency, it started to produce high volume standardised products by moulds and dies, and high value sophisticated products by its advanced CNC fabrication production lines. Consequently VJY was almost being run at full capacity (on a two shifts basis) and enjoyed reducing marginal cost of production. Outsourcing of certain less demanding production processes was also implemented to further raise capacity and improve production flexibility.

Continuous cost reduction efforts through application of total cycle time methodology also helped VJY to increase gross margin, which resulted in improved incoming materials first pass yield (FPY), higher process FPY, higher metal sheet utilisation rate, reduced rejects, increased variety and value of vendor managed inventory, and reduced material procurement cost.

*Plastics and Machinery*

Sales revenue of **Plastics and Machinery Department** as a whole decreased 3% as compared with the same period in 2002/03. The Plastics division which mainly consists of selling engineering plastic resins to the VSC Group's industrial customers managed to keep gross margin at similar level as last year, with sales volume growth of 22%. Turnover has been steadily generated from demand of a wide range of resins of Samsung Ato Fina, Mitsubishi and Cheil as well as some of the popular products of GE Plastics. The division's efforts in expanding its customer base have resulted in growing number of new customers with sizeable orders. To tap the domestic market, the Shenzhen sales office of the division was in full operation during the period, providing consultation, merchandising, after-sales and technical services to the customers. For the Machinery division, commission from new machineries sold was significantly less because many customers held back on capital investment under unsatisfactory economic condition and the SARS outbreak. The Machinery division will enhance its revenue stream by promoting more maintenance programmes and also exploring the second hand machinery market. In addition, through improved internal resource sharing and communication, this department is able to also capitalise on cross selling with customers of the other business units within CAMP division, thus improving the VSC Group's yield per customer.

**(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. Although the local economy and construction market continued to be very slow, with increasing contributions from Mainland China steel distribution, turnover of CMG for the period increased by 28% to HK$1,308 million while operating profit before unallocated corporate expenses increased by 22% to HK$33 million over the same period in 2002/03. The CMG operations contribute about 81% of the VSC Group's turnover and give rise to only about half of the VSC Group's operating profit.

*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, construction steel distribution in Shanghai and Shenzhen together with distribution of steel products with its 19.2% investment in the iSteelAsia Group, distribution of mainly domestic steel products through 66.7% owned joint venture ("JV") — Shanghai Bao Shun Chang ("BSC"), and distribution of pre-painted galvanised steel (PPGI) in Beijing for its 10% owned JV with Beijing Shougang Group.

During the period, price of rebars in Hong Kong was volatile due to the war in the Middle East earlier this year. After war, price has been recovered and stabilised. Gross margin was improved. Turnover of the **Hong Kong steel stockholding department** slightly decreased by 8% as compared to the corresponding period of last year but the gross profit increased by 64%. With recovery of rebars price driven up by the Iraqi war and the global supply and demand factors, the department aims to maintain a stable profit contribution to the VSC Group. The department continued its efforts to reduce operation cost, streamline the operation efficiency, strengthen supply chain management/accounts receivable management and improve customer service quality.

Olympic Games to be held in Beijing in 2008 and World Expo to be held in Shanghai in 2010 will boost demand of construction materials for infrastructure and all the ancillary facilities. The VSC Group observed a much more favourable market potential in Mainland China for its CMG to thrive. With its new operation headquarters opened in Shanghai in May 2003, the VSC Group is devoted to develop construction steel distribution such as rebars, H-beams and steel plates in Shanghai and Shenzhen. A wholly foreign owned enterprise (WOFE) trading company has been formed in Shanghai to handle this domestic distribution business. Turnover from steel products distribution in Mainland China amounted to HK$278 million for the period. The ongoing purchasing arrangement with the iSteelAsia Group also gave rise to sales of steel products of HK$106 million. Such sizeable distribution volume has rendered the VSC Group enduring benefits in terms of lower price from bulk purchases and very flexible shipment delivery available from major steel mills globally.

During the period, the VSC Group successfully introduced a leading environmental friendly piling technology — "Silent Piling", from GIKEN of Japan, into Shanghai, which provides solution to the problem of noise and vibration pollution resulted from traditional piling method for crowded city construction and redevelopments. In the second quarter, "Silent Piling" has been applied to the extension works of Shanghai Ruijin Hospital and a seminar conducted in the site was very well received. Such application not only introduced a new advanced form of construction technology to China but also raised people's awareness on environmental protection and social responsibility.

The 66.7% owned JV, **BSC**, posted encouraging results during the year. Turnover increased by 34% to HK$356 million. BSC is specialised in distribution of a wide range of steel products such as PPGI, hot-rolled and cold-rolled galvanised steel for major domestic steel mills including Baosteel and Bengang. A stable customer base of large manufacturers of electric appliances and air conditioners as well as structural steel distributors has been developed. Business has been growing strong recently on the back of robust economy in the eastern China region. Given the enormous market potential in China, prospect of BSC is expected to be promising.

VSC is satisfactory with the performance of its 19.2% investment in **iSteelAsia Holdings Limited ("iSA")**. For the year ended 31st March 2003, turnover of iSA reached HK$811 million and turnaround from a loss position to a net profit of HK$6.6 million. First quarter result of iSA remained strong. Turnover reached HK$398 million, an increase of 124% over the same period last year. Net profit amounted to HK$0.6 million. 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.

To capture the opportunities in Mainland China and the expected growth around the Beijing area leading up to the 2008 Beijing Olympic, the VSC Group invested in a joint venture of Beijing Shougang Group for production of PPGI, which is of widespread use in construction works in the PRC. Phase one of the project is to produce 170,000 tonnes PPGI annually and phase two is to expand the production lines to manufacture galvanised steel (GI) as well, which can be used as raw material for PPGI and other applications. Demand of PPGI in Beijing is expected to be strongly fuelled by construction of stadiums, hotels, and exhibition centres for the 2008 Beijing Olympic as well as the large automobile manufacturing facilities like Hyundai and Mercedes Benz expected to be built in Beijing. In view of such booming market, the VSC Group increased its stake in the JV from 7.5% to 10% with additional investment of US$1 million. This 10% owned JV is anticipated to commence production by the end of 2003. The VSC Group has obtained exclusive rights to distribute at least 50% of the production volume at a discounted cost from the JV and can also participate in supplying the raw material, GI to the JV.

*Building Products*

**Building products department** achieved turnaround for its operation and improved its performance by having an operating profit before unallocated corporate expenses of HK$3.7 million in the period, despite a reduction in turnover of 31%. The drop in turnover was mainly due to completion of the two major projects of kitchen cabinets division in the last financial year. The VSC Group decided to scale down the sizeable kitchens installation business after consideration of the uncertainties in future prospects, risks inherent and low profitability with such projects. Small to individual projects will be focused due to higher profit margin and less human resource deployment. As the property market in Hong Kong was weak, depressing the demand in both price and quantity of sanitary wares for project sales, the sanitary division has taken further initiatives to return to profitability. The department further diversified its business into nearby cities such as Macau and Shanghai. Distribution channels have been set up to expand sales coverage of the Toto and Laufen sanitary wares in these cities. Gross margin improved as the department focused in high margin retail business. **Leisure Plus**, the retail outlet and showroom continued to improve its profit contribution with more businesses as SARS has raised the concern of more quality sanitary products for hygiene.

The VSC Group has obtained distribution right in Shanghai and a WOFE, **Leisure Plus Shanghai**, has been set up to handle wholesale and project sales of sanitary wares from Toto. In the period, Leisure Plus Shanghai earned revenue of approximately HK$8.4 million. The department has proceeded smoothly in setting up distribution network, storage facilities and logistics arrangement in Shanghai.

## OUTLOOK

The CAMP operations will remain as the growth engine of the VSC Group. The strong demand of our industrial products from the targeted industries in China, namely home appliances, computer, telecommunication and automobile has provided an impetus to the development of CAMP operations. Leveraging on the market knowledge of VJY, DGCC is planning to supply processed steel cut to required size to the enclosure manufacturing market following the trend of fusion of sheet metal fabrication and moulding in making enclosures. TJCC will focus on customer development in the Bohai area and aim to achieve breakeven for its first year of operation. The coil centre team is also exploring to extend the product range to include aluminium, stainless steel and silicon steel. Plan is underway to form more coil centres at strategic locations such as Shanghai and Guangzhou by either building "greenfield" plants or if opportunities arise, mergers and acquisitions ("M&A"). VJY will continue its improvement process to secure its position as the key strategic partners of its telecommunication as well as other automobile and banking customers. The plastics and machinery department will cautiously penetrate into the China domestic market, starting from Shenzhen and nearby regions and next the Greater Shanghai area.

As for the CMG operations, Hong Kong's construction industry is expected to remain stagnant, especially demand related to residential projects. However, large-scale infrastructure projects including new highways and railways will remain steady and continue to offer demand for the VSC Group's rebars, structural steel and engineering products. Moreover, the VSC Group is making inroads into neighbouring markets such as Macau and Shenzhen. Diversification into such cities with a strong presence of Hong Kong developers and increasing of the higher margin structural steel and engineering products will help compensate the shrinkage in rebars. On the other hand, market potential for steel and building products distribution in Mainland China, such as Shanghai and Beijing, is huge. Leveraging on the existing set up in Hong Kong, it is expected that much synergy and economy of scale in terms of sourcing, logistics, supply chain management and marketing could be attained by extending into these new markets.

As stated earlier, the VSC Group will focus its future resources to develop the CAMP division, which is a relatively underdeveloped sector (as compared to the more industrialised western nations like the United States). The VSC Group's knowledge base and early inroad into this sector has given it an "early mover" advantage with relatively few competitions addressing a vast potential market. Moving forward the VSC Group will expand its CAMP division through a two-prone approach — either through establishment of new facilities in strategic industrial regions in Mainland China for organic growth, or when opportunities arise, acquire existing operations that it can enhance through implementations of its enterprise system approach for M&A.

On the corporate front, as the VSC Group continues to develop the CAMP division, it is also apparent that the CAMP and CMG divisions operate on distinct business models with very different resources needed. The CAMP division is a longer-term processing operation that requires capital investments and a longer payback period driven by a much higher profit margin and a relatively underdeveloped market. While the CMG division is a distribution operation that yields good cashflow, quick returns but a much lower margin requiring high leverage and facing a more mature market. The management is aware that to ensure the successful execution of the VSC Group's strategy, further rationalisation of its resources will be required, and is thus proactively exploring various group structures and financial alternatives that will maximise shareholders' value.

In summary, amid a slight setback as caused by the SARS, the VSC Group manages to outperform from that of last year and maintain its momentum of strong growth. The management is optimistic that through cautious and prudent approach in exploring new markets and business opportunities, the VSC Group will be able to continue to capitalise on the niche that it has developed so far.

## EMPLOYEE AND REMUNERATION POLICIES

As at 30th September 2003, the VSC Group employed 982 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$27 million. During the 6-month period 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.

## INTERIM DIVIDEND

The Directors have declared an interim dividend of HK3.1 cents per share for the six months ended 30th September 2003 payable to shareholders whose names appear on the Register of Members of VSC at the close of business on 7th January 2004. Dividend warrants are expected to be despatched on or before 13th January 2004.

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members of VSC will be closed from 5th January 2004 to 7th January 2004 (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, Computershare Hong Kong Investor Services Limited by not later than 4:00 p.m. (Hong Kong SAR time) on 2nd January 2004.

## 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 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 2003 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 Rules Governing the Listing of Securities on the Stock Exchange will be published on the website of the Stock Exchange in due course.

On behalf of the Board of Directors
**Yao Cho Fai, Andrew**
*Chairman and Chief Executive Officer*

Hong Kong, 30th October 2003

http://www.vschk.com
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