

(Amounts expressed in Hong Kong dollars unless otherwise stated)

1. ORGANISATION AND PRINCIPAL ACTIVITIES

Van Shung Chong Holdings Limited (“VSC”) was incorporated in Bermuda on 12th January, 1994 as an exempted company under the Companies Act 1981 of Bermuda. Its shares have been listed on The Stock Exchange of Hong Kong Limited since 18th February, 1994. VSC’s Directors consider Huge Top Industrial Ltd., a company incorporated in the British Virgin Islands, to be the ultimate holding company.

VSC is an investment holding company. Its subsidiaries are principally engaged in (i) trading and stockholding of steel products, processing of rolled steel flat products, trading of sanitary ware and kitchen cabinets, and the provision of installation work on kitchen cabinets, and trading of engineering plastic resins and injection moulding machines in Hong Kong and Mainland China, (ii) property rental, and (iii) the finance business.

2. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong, and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Principal accounting policies are summarised below:

a. Basis of measurement

The financial statements have been prepared on the historical cost basis as modified by the valuation of investment properties and long-term investments.

b. Basis of consolidation

The consolidated financial statements include the accounts of VSC and its subsidiaries (together the “VSC Group”), together with the VSC Group’s share of post-acquisition profits/losses and reserves of its associates under the equity method of accounting. The results of subsidiaries and associates acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal. Significant intra-group transactions and balances have been eliminated on consolidation.

c. Goodwill

Goodwill represents the difference between the fair value of the consideration given and the VSC Group’s share of the fair values of the identifiable net assets acquired. Positive goodwill arises where the consideration given exceeds the VSC Group’s share of the fair values of the identifiable net assets acquired and is eliminated immediately against available reserves. Negative goodwill arises where the VSC Group’s share of the fair values of the identifiable net assets acquired exceeds the consideration given and is credited to reserves.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

d. Subsidiaries

A subsidiary is a company in which VSC holds, directly or indirectly, more than 50% of its issued voting share capital as a long-term investment and can exercise control over its management. In VSC's financial statements, investment in subsidiaries is stated at cost less provision for any impairment in value, while income from subsidiaries is accounted for in the income statement to the extent of dividends received and receivable.

e. Associates

An associate is a company, not being a subsidiary, in which the VSC Group holds 20% or more of its issued voting share capital as a long-term investment and can exercise significant influence over its management. In the consolidated financial statements, investment in associates is stated at the VSC Group's share of the aggregate fair values of the identifiable net assets of the associates at the time of acquisition, plus the VSC Group's share of undistributed post-acquisition profits/losses and reserves of the associates, distributions received from the associates and other necessary alternations in the VSC Group's proportionate interest in the associates arising from changes in the equity of the associates that have not been included in the income statement.

f. Contractual joint ventures

A contractual joint venture is an entity established between the VSC Group and one or more other parties for a pre-determined period of time, with the rights and obligations of the joint venture partners being governed by a contract. If the VSC Group is able to govern and control the financial and operating policies of the contractual joint venture, such joint venture is considered as a de facto subsidiary and is accounted for as such. If the VSC Group can only exercise significant influence over the management of the contractual joint venture, such joint venture is accounted for as an associate.

g. Turnover and revenue recognition

Turnover consists of (i) the net invoiced value of merchandise sold after allowances for returns and discounts, (ii) the net invoiced value of sales of kitchen cabinets and the related installation work, (iii) rental income, and (iv) interest income from the finance business.

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the VSC Group. Sales revenue is recognised when the merchandise is shipped and title has passed. Revenue from sales of kitchen cabinets and the related installation work is recognised using the percentage-of-completion method (see Note 2.o). Rental income is recognised on a straight-line basis over the period of the relevant leases. Interest income is recognised on a time proportion basis on the principal outstanding and at the rate applicable.

Advance payments received from customers prior to delivery of merchandise are recorded as receipts in advance.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

h. Taxation

Individual companies within the VSC Group provide for profits tax on the basis of their profit for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for profits tax purposes.

Deferred taxation is provided under the liability method, at current tax rate, in respect of significant timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, except when it is considered that no liability will arise in the foreseeable future. Deferred tax assets are not recognised unless the related benefits are expected to crystallise in the foreseeable future.

i. Employee retirement benefits

The costs of employee retirement benefits are recognised as an expense in the period in which they are incurred.

j. Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to bring to its intended use or sale are capitalised as part of the cost of that asset at rates based on the actual cost of the specific borrowings. All other borrowing costs are recognised as an expense in the period in which they are incurred.

k. Property, plant and equipment and depreciation

Property, plant and equipment, other than investment properties, are stated at cost less accumulated depreciation. Major expenditures on modifications and betterments of property, plant and equipment which will result in future economic benefits are capitalised, while expenditures on maintenance and repairs are expensed when incurred. Depreciation is provided on a straight-line basis to write off the cost of each asset over its estimated useful life. The annual rates of depreciation are as follows:

Land	2% (lease terms)
Buildings	4%
Furniture and equipment	15% to 20%
Machinery	15% to 20%
Motor vehicles	20%

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)**k. Property, plant and equipment and depreciation (Cont'd)**

The carrying value of property, plant and equipment is assessed periodically or when factors indicating an impairment are present. Individual items of property, plant and equipment carried at cost less accumulated depreciation are reduced to their recoverable amount if this is lower than net book value, with the difference charged to the income statement. In determining the recoverable amount of individual items of property, plant and equipment, expected future cash flows are not discounted to their present value.

Gains or losses on disposal of property, plant and equipment are recognised in the income statement based on the net disposal proceeds less the carrying amount of the assets.

Construction-in-progress represents leasehold improvements under construction. It is stated at cost, which includes construction expenditures incurred and other costs attributable to the construction of the buildings. No depreciation is provided in respect of construction-in-progress until the construction work is completed.

l. Investment properties

Investment properties are leasehold interests in land and buildings held for their long-term investment potential. These properties are included in the balance sheet at their open market value on the basis of an annual valuation by independent qualified valuers. Changes in the value of investment properties are dealt with in the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a deficit on a portfolio basis, in which case the net deficit is charged to the income statement. When an investment property is disposed of, previously recognised revaluation surpluses are reversed and the gain or loss on disposal reported in the income statement is determined based on the net disposal proceeds less the original cost.

No depreciation is provided for investment properties unless the unexpired lease term is 20 years or less, in which case depreciation is provided on the then carrying value over the unexpired lease term.

m. Long-term investments

Long-term investments are included in the balance sheet at their fair value. Changes in fair value of individual investments are dealt with in the asset revaluation reserve until the investment is disposed of or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in the income statement. Transfers from the asset revaluation reserve to the income statement as a result of impairment are reversed when circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

n. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method of costing and includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on the estimated selling price in the ordinary course of business, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

o. Installation contracts

When the outcome of an installation contract can be estimated reliably, contract revenue and costs associated with the contract are recognised as revenue and expenses, respectively, by reference to the stage of completion of the contract activity. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of an installation contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable and contract costs are recognised as an expense in the period in which they are incurred.

Installation contracts-in-progress at the balance sheet date are recorded at the amount of costs incurred plus recognised profits less recognised losses and progress billings, and are presented in the balance sheet as gross amount due from customers for installation contract work, an asset, or gross amount due to customers for installation contract work, a liability, where applicable. Amounts billed but not yet paid by customers for work performed on a contract are included in the balance sheet as accounts receivable.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)**p. Operating leases**

Operating leases represent leases under which substantially all the risks and rewards of ownership of the leased assets remain with the lessors. Rental payments under operating leases are charged to the income statement on a straight-line basis over the period of the relevant leases.

q. Foreign currency translation

Individual companies within the VSC Group maintain their books and records in the primary currencies of their respective operations ("functional currencies"). In the accounts of the individual companies, transactions in other currencies during the year are translated into the respective functional currencies at the applicable rates of exchange prevailing at the time of the transactions; monetary assets and liabilities denominated in other currencies are translated into the respective functional currencies at the applicable rates of exchange in effect at the balance sheet date. Exchange gains or losses are dealt with in the income statement of the individual companies.

The VSC Group prepares consolidated financial statements in Hong Kong dollars. For the purpose of consolidation, assets and liabilities of subsidiaries with functional currencies other than Hong Kong dollars are translated into Hong Kong dollars at the applicable rates of exchange in effect at the balance sheet date; income and expense items of subsidiaries are translated into Hong Kong dollars at the average applicable exchange rates during the year. Exchange differences arising from such translations are dealt with as movements of cumulative translation adjustments.

3. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

a. Details of significant transactions with related parties are:

Name of related party/Nature of transaction	2001 \$'000	2000 \$'000
Metal Logistics Company Limited (i)		
— Sales made by the VSC Group	118,756	—
— Commission for procurement services charged to the VSC Group	1,373	—
— Administrative service fees earned by the VSC Group	180	—
— Interest earned by the VSC Group	897	—
iSteelAsia (Hong Kong) Limited (i)		
— Rental earned by the VSC Group	1,860	—
— Rates, management fee and utility charges earned by the VSC Group	464	—
— Administrative service fees earned by the VSC Group	180	—
— Interest earned by the VSC Group	26	—
EC.com Limited (ii)		
— Rental earned by the VSC Group	843	—

Notes —

- (i) Metal Logistics Company Limited and iSteelAsia (Hong Kong) Limited are wholly owned by iSteelAsia.com Limited, a company in which the VSC Group has a 19.1% equity interest.
- (ii) EC.com Limited is beneficially owned and controlled by Mr. Kwok Tai Tsang, Moses, a non-executive director of the Company.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

3. RELATED PARTY TRANSACTIONS (Cont'd)

- b. The amounts due from related companies arising from transactions described in Note 3.a were included in accounts receivable. Details of these balances are as follows:

Name of related company	2001 \$'000	2000 \$'000
Metal Logistics Company Limited (i)	17,087	—
EC.com Limited (ii)	213	—
	<u>17,300</u>	<u>—</u>

Notes —

- (i) The balance is unsecured, bears interest at commercial rates and is without pre-determined payment terms.
- (ii) The balance is under normal commercial terms.

4. DISCONTINUING OPERATIONS

As at 31st March, 2001, the VSC Group had determined to discontinue its rebars processing operations, representing the provision of cut and bend services and epoxy coating services, effective from May 2001. Thereafter, the VSC Group has ceased selling rebars processed from such operations. The results of the sales of such processed rebars are presented as discontinuing operations in the consolidated income statement for the year ended 31st March, 2001. The consolidated income statement for the year ended 31st March, 2000 has been restated to present the results of these operations as discontinuing operations.

The results of the discontinuing operations are:

	2001	2000
	\$'000	\$'000
Turnover	36,164	23,795
Cost of sales	(34,811)	(25,854)
Gross profit (loss)	1,353	(2,059)
Selling and distribution expenses	(1,258)	(1,019)
Operating expenses, including costs of discontinuance	(48,590)	(7,014)
Loss from operations	(48,495)	(10,092)
Interest income	753	75
Interest expense	(653)	(239)
Loss attributable to shareholders	(48,395)	(10,256)

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(Amounts expressed in Hong Kong dollars unless otherwise stated)

5. TURNOVER AND REVENUE

Turnover and revenue consisted of:

	2001 \$'000	2000 \$'000
Continuing operations —		
Sales of merchandise	2,334,303	1,874,061
Rental income	4,096	547
Interest income from the finance business	1,888	1,261
Others	—	1,281
	<u>2,340,287</u>	<u>1,877,150</u>
Discontinuing operations —		
Sales of merchandise	36,164	23,795
	<u>2,376,451</u>	<u>1,900,945</u>
Turnover	4,778	3,270
Interest income	<u>2,381,229</u>	<u>1,904,215</u>
Total revenue	<u>2,381,229</u>	<u>1,904,215</u>

5. TURNOVER AND REVENUE (Cont'd)

The VSC Group's turnover by major product and operational category and geographical location, together with their respective gross profit is analysed as follows:

a. By major product and operational category:

	2001		2000	
	Turnover \$'000	Gross profit \$'000	Turnover \$'000	Gross profit \$'000
Continuing operations —				
Sales revenue				
Steel — rebars, piling and flat products	1,751,901	134,746	1,327,349	175,174
Engineering plastic resins	286,179	34,456	332,657	33,050
Processing of rolled steel flat products	221,664	42,687	158,909	31,952
Sanitary ware and kitchen cabinets (including installation revenue)	69,109	15,670	51,205	13,800
Machinery	5,450	3,658	3,941	2,788
Rental income	4,096	4,096	547	547
Interest income from the finance business	1,888	1,888	1,261	1,261
Others	—	—	1,281	741
	<u>2,340,287</u>	<u>237,201</u>	<u>1,877,150</u>	<u>259,313</u>
Discontinuing operations —				
Sales of merchandise	36,164	1,353	23,795	(2,059)
Total turnover	<u>2,376,451</u>	<u>238,554</u>	<u>1,900,945</u>	<u>257,254</u>

b. By geographical location *:

	Turnover	
	2001	2000
Hong Kong	58.4%	53.6%
Mainland China	41.6%	45.4%
Macau	—	1.0%
	<u>100%</u>	<u>100%</u>

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

No analysis of profit before taxation by geographical location is presented as it is generally in line with the distribution of turnover as set out above.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

6. GAIN (LOSS) ON INVESTMENTS

Gain (Loss) on investments consisted of:

	2001 \$'000	2000 \$'000
Gain on disposal of shares in unlisted companies (i)	21,214	—
Dilution gain on shares in iSteelAsia.com Limited (ii)	58,355	—
Gain resulting from distribution in specie of shares in iSteelAsia.com Limited (iii)	281,826	—
Total gain on investments	361,395	—
Provision for impairment in value of investments (iv)	(37,545)	(2,732)
	323,850	(2,732)

Notes —

- (i) In April 2000, the VSC Group disposed of certain equity interests in two subsidiaries, namely MetalAsia Holdings Limited (from 100% to 44%) and iSteelAsia Holdings Limited (from 80% to 44%) and recognised a gain of approximately \$21,214,000. Thereafter, MetalAsia Holdings Limited and iSteelAsia Holdings Limited ceased to be subsidiaries of the VSC Group.
- (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 issuance of new shares of iSteelAsia.com Limited. In this connection, the VSC Group recognised a dilution gain of approximately \$58,355,000 and transferred an amount equal to such dilution gain 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 19.6% of the equity of iSteelAsia.com Limited, and had a valuation of \$308,016,000 based on the offering price of \$1.08 per share in connection with the listing of the shares of iSteelAsia.com Limited on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited in April 2000. In this connection, the VSC Group recognised a gain of approximately \$281,826,000.
- (iv) During the year ended 31st March, 2001, the VSC Group assessed the realisability of its investments in a company listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and of its investments in and advances to associates, and recorded a provision for impairment in value of approximately \$37,545,000 (2000—\$2,732,000).

7. LOSS ON INVESTMENT PROPERTIES

Loss on investment properties consisted of:

	2001 \$'000	2000 \$'000
Loss on disposal of an investment property	4,003	—
Deficit on revaluation of investment properties	29,627	1,680
	<u>33,630</u>	<u>1,680</u>

8. PROFIT BEFORE TAXATION

Profit before taxation was determined after charging or crediting the following items:

	2001 \$'000	2000 \$'000
After charging —		
Staff costs (including directors' emoluments)	72,340	56,901
Operating lease rentals of premises and motor vehicles	13,458	11,121
Provision for bad and doubtful debts	13,198	7,257
Provision for doubtful loans receivable	20,486	—
Provision for obsolete and slow-moving inventories	1,706	1,640
Depreciation of property, plant and equipment	13,842	9,440
Net loss on disposal of property, plant and equipment	125	171
Provision for impairment in value of property, plant and equipment in respect of the discontinuing operations (Note 4)	9,701	—
Interest on bank borrowings wholly repayable within five years	11,732	14,907
Net exchange loss	3,443	2,235
Auditors' remuneration	1,033	1,117
	<u> </u>	<u> </u>
After crediting —		
Rental income from		
— related companies (Note 3)	2,703	—
— third parties	1,393	547
Interest income* from		
— bank deposits	1,445	3,270
— other deposits	1,490	—
— overdue accounts receivable	920	—
— amounts due from related companies (Note 3)	923	—
	<u> </u>	<u> </u>

* Excludes interest income from the finance business which is included as turnover.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

9. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

a. Details of directors' emoluments are:

	2001 \$'000	2000 \$'000
Fees for executive directors	—	—
Fees for non-executive directors	320	320
Other emoluments for executive directors		
— Basic salaries and allowances	5,352	4,402
— Discretionary bonuses *	9,617	1,756
— Contribution to pension schemes	132	68
	<u>15,421</u>	<u>6,546</u>

* The executive directors were entitled to discretionary bonuses which were determined with reference to the financial performance including profit attributable to shareholders of the VSC Group.

In addition to the above-mentioned emoluments, the VSC Group provided a residential apartment to an executive director, with the annual rateable value of the apartment amounting to approximately \$1,038,000 (2000 — \$1,038,000).

No directors waived any emoluments during the year.

Analysis of directors' emoluments (including the rateable value of the apartment used as a director's residence) by number of directors and emolument ranges is as follows:

	2001	2000
Executive directors		
— Nil to \$1,000,000	—	6
— \$1,000,001 to \$1,500,000	—	1
— \$1,500,001 to \$2,000,000	1	—
— \$2,000,001 to \$2,500,000	1	1
— \$2,500,001 to \$3,000,000	1	—
— \$3,000,001 to \$3,500,000	3	—
	<u>6</u>	<u>8</u>
Non-executive directors		
— Nil to \$1,000,000	4	4
	<u>10</u>	<u>12⁺</u>

+ Two executive directors resigned and another two executive directors were appointed during the year ended 31st March, 2000. The amounts of directors' emoluments as disclosed above only included the emoluments paid or payable to these respective individuals while they were directors.

9. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (Cont'd)

- b. Details of remuneration of the five highest paid individuals (including directors and other employees) are:

	2001 \$'000	2000 \$'000
Basic salaries and allowances	6,001	6,036
Compensation for loss of office	—	345
Bonuses	7,808	934
Contributions to pension schemes	169	151
	<u>13,978</u>	<u>7,466</u>

The five highest paid individuals included four (2000 — three) executive directors of VSC, details of whose emoluments have been included in Note 9.a above.

In addition to the above-mentioned emoluments, the VSC Group provided a residential apartment to an executive director who is one of the five highest paid individuals (see Note 9.a).

During the year, no emoluments of the five highest paid individuals (including executive directors and other employees) were incurred as inducement to join or upon joining the VSC Group or as compensation for loss of office (2000 — \$345,000 was incurred as compensation for loss of office).

Analysis of emoluments (including the rateable value of the apartment used as a director's residence) of the five highest paid individuals (including executive directors and other employees) by number of individuals and emolument ranges is as follows:

	2001	2000
\$1,000,001 to \$1,500,000	—	2
\$1,500,001 to \$2,000,000	—	1
\$2,000,001 to \$2,500,000	1	2
\$2,500,001 to \$3,000,000	1	—
\$3,000,001 to \$3,500,000	3	—
	<u>5</u>	<u>5</u>

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(Amounts expressed in Hong Kong dollars unless otherwise stated)

10. TAXATION

Taxation consisted of:

	2001 \$'000	2000 \$'000
VSC and subsidiaries —		
Current taxation		
— Hong Kong profits tax	14,938	17,821
— Mainland China enterprise income tax	22	839
Deferred taxation	573	634
	<u>15,533</u>	<u>19,294</u>

VSC is exempt from taxation in Bermuda until 2016.

Hong Kong profits tax has been provided at 16% (2000 — 16%) of the estimated assessable profit arising in or derived from Hong Kong.

Shanghai Bao Shun Chang International Trading Co., Ltd., a subsidiary established in Shanghai Outer Gaoqiao Free Trade Zone, Mainland China, is subject to Mainland China enterprise income tax at 15% (2000 — 15%) on its taxable income determined according to Mainland China tax laws. Dongguan Van Shung Chong Steel Products Co., Ltd. ("DGVSC"), a wholly-owned subsidiary established and operated in Mainland China, is subject to Mainland China enterprise income tax at a rate of 24%. DGVSC is exempt from Mainland China enterprise income tax for two years starting from the first year of profitable operations after offsetting prior years' tax losses, followed by a 50% reduction in Mainland China enterprise income tax for the next three years. The tax exemption period for DGVSC commenced during the year ended 31st March, 2001.

11. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders included a profit of approximately \$400,366,000 (2000 — \$59,586,000) dealt with in the financial statements of VSC.

12. DIVIDENDS

Dividends consisted of:

	2001 \$'000	2000 \$'000
Interim dividends		
— Cash dividend of \$0.03 (2000 — \$0.028) per share	10,659	8,455
— Distribution in specie of shares in iSteelAsia.com Limited (Note 6)	308,016	—
	<u>318,675</u>	<u>8,455</u>
Proposed final cash dividend of \$0.23 (2000 — \$0.06) per share	81,716	21,317
Additional final dividend for the prior year due to exercise of warrants and employee share options	—	158
	<u>400,391</u>	<u>29,930</u>

13. RETAINED PROFIT

Retained profit consisted of:

	2001 \$'000	2000 \$'000
VSC	7,496	27,490
Subsidiaries	118,980	267,077
Associates	(1,388)	(1,477)
	<u>125,088</u>	<u>293,090</u>

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14. EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31st March, 2001 is based on the consolidated profit attributable to shareholders of approximately \$310,713,000 (2000 — \$90,544,000) and the weighted average number of approximately 355,417,000 shares (2000 — 302,972,000 shares) in issue during the year.

The calculation of diluted earnings per share for the year ended 31st March, 2001 is based on the consolidated profit attributable to shareholders of approximately \$310,713,000 (2000 — \$90,544,000) and the weighted average number of approximately 359,625,000 shares (2000 — 314,665,000 shares) in issue, after adjusting for the effect of all dilutive potential shares. The effect of the dilutive potential shares resulting from the exercise of the outstanding warrants and employee share options on the weighted average number of shares in issue during the year was approximately 4,208,000 shares (2000 — 11,693,000 shares), which were deemed to have been issued at no consideration as if all the outstanding warrants and employee share options had been exercised on the date when the warrants and employee share options were granted.

15. PROPERTY, PLANT AND EQUIPMENT

a. Movements of property, plant and equipment (consolidated) were:

	2001					Total \$'000	2000 Total \$'000
	Land and buildings \$'000	Construction- in-progress \$'000	Furniture and equipment \$'000	Machinery \$'000	Motor vehicles \$'000		
Cost							
Beginning of year	101,883	163	23,594	26,167	5,455	157,262	114,160
Attributable to acquisition of subsidiaries	—	—	—	—	—	—	23,625
Additions	142	244	4,567	4,708	1,151	10,812	22,466
Disposals	—	—	(198)	(115)	(1,449)	(1,762)	(3,532)
Transfer to investment properties	(32,372)	—	—	—	—	(32,372)	—
Attributable to disposal of interests in subsidiaries	—	—	(247)	—	—	(247)	—
Translation adjustments	915	9	77	742	95	1,838	543
End of year	70,568	416	27,793	31,502	5,252	135,531	157,262
Accumulated depreciation							
Beginning of year	6,371	—	5,997	12,226	1,683	26,277	19,220
Provision for the year	2,793	—	4,636	5,530	883	13,842	9,440
Disposals	—	—	(96)	(53)	(524)	(673)	(2,496)
Transfer to investment properties	(491)	—	—	—	—	(491)	—
Attributable to disposal of interests in subsidiaries	—	—	(6)	—	—	(6)	—
Provision for impairment in value in respect of the discontinuing operations (Note 4)	—	—	4,578	4,488	635	9,701	—
Translation adjustments	138	—	37	378	32	585	113
End of year	8,811	—	15,146	22,569	2,709	49,235	26,277
Net book value							
End of year	61,757	416	12,647	8,933	2,543	86,296	130,985
Beginning of year	95,512	163	17,597	13,941	3,772	130,985	94,940

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(Amounts expressed in Hong Kong dollars unless otherwise stated)

15. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

b. Details of land and buildings (consolidated) are:

Geographical locations and tenure —

	2001 \$'000	2000 \$'000
Hong Kong		
— medium-term leases	16,582	38,699
— long-term leases	31,181	42,561
Mainland China		
— medium-term leases *	13,994	14,252
	<u>61,757</u>	<u>95,512</u>

* As at 31st March, 2001, the VSC Group did not have formal land use right certificates relating to factory premises with a net book value of approximately \$13,255,000 (2000 — \$13,548,000) located in Dongguan, Guangdong Province, Mainland China.

16. INVESTMENT PROPERTIES

a. Movements of investment properties (consolidated) were:

	2001 \$'000	2000 \$'000
Beginning of year	36,800	38,480
Transfer from property, plant and equipment	31,881	—
Disposal	(7,714)	—
Deficit on revaluation (Note 7)	(29,627)	(1,680)
End of year	<u>31,340</u>	<u>36,800</u>

16. INVESTMENT PROPERTIES *(Cont'd)*

b. Details of investment properties (consolidated) are:

Geographical locations and tenure —

	2001	2000
	\$'000	\$'000
Hong Kong		
— medium-term leases	16,000	—
— long-term leases	10,700	11,000
Mainland China		
— long-term leases	4,640	25,800
	31,340	36,800

Investment properties in Hong Kong were stated at open market value as at 31st March, 2001 as determined by LCH (Asia-Pacific) Surveyors Limited and Landscape Surveyors Limited, independent qualified valuers.

Investment properties in Mainland China are held under land use rights for a period of 70 years up to September 2063 and were stated at open market value as at 31st March, 2001 as determined by Landscape Surveyors Limited, independent qualified valuers.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

17. INVESTMENT IN SUBSIDIARIES

In VSC's balance sheet, investment in subsidiaries consisted of:

	2001 \$'000	2000 \$'000
Unlisted shares, at cost	71,746	71,746
Due from subsidiaries	329,466	280,579
	<u>401,212</u>	<u>352,325</u>

The amounts due from subsidiaries are unsecured, non-interest bearing and not repayable until the subsidiaries are financially capable of doing so.

The underlying value of the investment in subsidiaries is, in the opinion of VSC's Directors, not less than the carrying value as at 31st March, 2001.

Details of the principal subsidiaries as at 31st March, 2001 are:

Name	Place of incorporation and operations	Issued and fully paid share capital	Percentage of equity interest attributable to the VSC Group (i)	Principal activities
Van Shung Chong (B.V.I.) Limited	British Virgin Islands	US\$6	100%	Investment holding
Van Shung Chong Hong Limited	Hong Kong	\$2,000 ordinary \$10,000,000 non-voting deferred (iv)	100%	Trading and stockholding of steel, engineering plastic resins and injection moulding machines
Vantage Godown Company Limited	Hong Kong	\$200,000	100%	Provision of warehousing services
Shanghai Bao Shun Chang International Trading Co., Ltd. (ii)	Mainland China	US\$600,000	66.7%	Trading and stockholding of steel
Dongguan Van Shung Chong Steel Products Co., Ltd. (iii)	Mainland China	\$23,000,000	100%	Processing of rolled steel flat products

17. INVESTMENT IN SUBSIDIARIES (Cont'd)

Name	Place of incorporation and operations	Issued and fully paid share capital	Percentage of equity interest attributable to the VSC Group (i)	Principal activities
Tomahawk Capital Limited	Hong Kong	\$10,000	100%	Finance business
VSC Building Products Company Limited	Hong Kong	\$2	100%	Trading of sanitary ware and kitchen cabinets and kitchen cabinets installation
VSC Engineering Products Company Limited	Hong Kong	\$2	100%	Sales of engineering products
VSC Steel Company Limited (formerly known as Shougang Concord Steel Company Limited)	Hong Kong	\$38,000 ordinary \$20,000,000 non-voting deferred (v)	100% 100%	Trading and stockholding of steel
Senior Rich Development Limited	Hong Kong	\$380 ordinary \$10,000 non-voting deferred (v)	100% 100%	Property holding
Pulsar Enterprises Ltd.	British Virgin Islands/ Hong Kong	US\$2	100%	Property holding
Shun Bao International Enterprise Limited	British Virgin Islands/ Hong Kong	US\$2	100%	Property holding
VSC Property Holdings Limited	British Virgin Islands	US\$2	100%	Investment holding
VSC Energy Development Limited	British Virgin Islands/ Mainland China	US\$2	100%	Property holding
VSC Group Development Company Limited	British Virgin Islands	US\$2	100%	Investment holding

(Amounts expressed in Hong Kong dollars unless otherwise stated)

17. INVESTMENT IN SUBSIDIARIES (Cont'd)

Notes —

- (i) The shares of Van Shung Chong (B.V.I.) Limited are held directly by VSC. The shares of other subsidiaries are held indirectly.
- (ii) Shanghai Bao Shun Chang International Trading Co., Ltd. is an equity joint venture established in Mainland China with an operating period of 20 years to 2014.
- (iii) Dongguan Van Shung Chong Steel Products Co., Ltd. is a contractual joint venture established in Mainland China with an operating period of 12 years to 2007.
- (iv) The non-voting deferred shares of Van Shung Chong Hong Limited are owned by the VSC Group. These shares have no voting rights, are not entitled to dividends, and are not entitled to any distributions upon winding up unless a sum of \$2,000,000,000 per share has been distributed to the holders of ordinary shares.
- (v) The non-voting deferred shares of VSC Steel Company Limited and Senior Rich Development Limited are owned by the VSC Group. These shares have no voting rights, are not entitled to dividends, and are not entitled to any distributions upon winding up unless a sum of \$100,000,000,000 has been distributed to the holders of ordinary shares.

The above summary lists the principal subsidiaries which, in the opinion of VSC's Directors, principally affected the results or formed a substantial portion of the net assets of the VSC Group. To give details of other subsidiaries would, in the opinion of VSC's Directors, result in particulars of excessive length.

None of the subsidiaries had any loan capital in issue at any time during the year ended 31st March, 2001.

18. INVESTMENT IN ASSOCIATES

Investment in associates consisted of:

	2001 \$'000	2000 \$'000
Unlisted shares, at cost	16,212	16,212
Share of post-acquisition loss	(1,388)	(1,477)
Less: Provision for impairment in value	(14,735)	(320)
	<u>89</u>	<u>14,415</u>
Advances to associates	12,533	8,156
Less: Provision for doubtful receivables	(12,532)	(4,010)
	<u>1</u>	<u>4,146</u>
	<u><u>90</u></u>	<u><u>18,561</u></u>

During the year, VSC's Directors reviewed and evaluated the recoverability of the carrying amount of investment in associates and determined to provide for impairment in value and doubtful receivables from associates of approximately \$22,937,000 (2000 — \$2,732,000).

The advances to associates are unsecured, non-interest bearing and not repayable until the associates are financially capable of doing so.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

18. INVESTMENT IN ASSOCIATES (Cont'd)

Details of the associates as at 31st March, 2001 are:

Name	Place of incorporation and operations	Issued and fully paid share capital	Percentage of equity interest held indirectly	Principal activity
Steel Supreme Limited	British Virgin Islands/ Mainland China	US\$100	30%	Provision of pier services
Dongguan Luen Tung Harbour & Dock Co., Ltd. (i)	Mainland China	\$20,418,128	30%	Provision of pier services
GFTZ Guangbo Power Plant Fuel Co. Ltd. (ii)	Mainland China	RMB17,400,000	57.5% (ii)	Storage and distribution of fuel and oil

Notes:—

- (i) Dongguan Luen Tung Harbour & Dock Co., Ltd. is a contractual joint venture established in Mainland China with an operating period of 20 years to 2015.
- (ii) GFTZ Guangbo Power Plant Fuel Co. Ltd. is a contractual joint venture established in Mainland China with an operating period of 30 years to 2025. This is considered by VSC's Directors to be an associate as VSC cannot control but can only exercise significant influence over its management.

The underlying value of the investment in associates is, in the opinion of VSC's Directors, not less than the carrying value as at 31st March, 2001.

19. LONG-TERM INVESTMENTS

Long-term investments (consolidated) consisted of:

	2001 \$'000	2000 \$'000
Investment in shares listed in Hong Kong		
— At cost	42,722	17,193
— Change in fair value	39,093	(10,109)
	<u>81,815</u>	<u>7,084</u>
Unlisted investment	5,616	5,616
	<u>87,431</u>	<u>12,700</u>

The investment in shares listed in Hong Kong includes approximately 19.1% equity interest in iSteelAsia.com Limited, a company incorporated in Bermuda whose shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. These shares were stated in the balance sheet at their quoted market value as at 31st March, 2001, with the surplus of the quoted market value over the investment cost of approximately \$53,701,000 credited to the asset revaluation reserve. The balance of the investment in shares listed in Hong Kong represents investment in another company listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, which were also stated in the balance sheet at their quoted market value as at 31st March, 2001. An impairment in value in respect of the investment of approximately \$14,608,000 was considered to be other than temporary and was recognised as an expense during the year, including a transfer of a deficit in the asset revaluation reserve of approximately \$10,109,000 to the income statement.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

20. INVENTORIES

Inventories (consolidated) consisted of steel rebars, H-piles, sheet piles and rolled steel flat products, sanitary ware, kitchen cabinets, engineering plastic resins and machinery spare parts for trading purposes.

	2001	2000
	\$'000	\$'000
Gross inventories	242,200	430,611
Less: Provision for obsolete and slow-moving inventories	(3,345)	(4,925)
	<u>238,855</u>	<u>425,686</u>

There were no inventories carried at net realisable value as at 31st March, 2001.

Certain inventories were held under trust receipts bank loans (see Notes 25 and 35).

21. GROSS AMOUNT DUE FROM (TO) CUSTOMERS FOR INSTALLATION CONTRACT WORK

Gross amount due from (to) customers for installation contract work (consolidated) consisted of:

	2001	2000
	\$'000	\$'000
Costs plus recognised profits	58,118	29,899
Less: Progress billings received and receivable	(57,130)	(37,633)
Foreseeable losses	(72)	(1,249)
	<u>916</u>	<u>(8,983)</u>

22. ACCOUNTS RECEIVABLE

A major portion of the VSC Group's sales are made on an open account basis, with credit periods ranging from 30 to 90 days. Ageing analysis of accounts receivable (consolidated) is as follows:

	2001 \$'000	2000 \$'000
0 to 60 days	288,069	287,838
61 to 120 days	53,904	66,782
121 to 180 days	16,847	2,724
181 to 365 days	6,290	16,413
Over 365 days	6,074	4,940
	<u>371,184</u>	<u>378,697</u>
Less: Provision for bad and doubtful debts	(15,306)	(17,435)
	<u><u>355,878</u></u>	<u><u>361,262</u></u>

23. LOANS RECEIVABLE

Loans receivable (consolidated) consisted of:

	2001 \$'000	2000 \$'000
Loans to a sub-contractor	11,564	4,719
Other loans	37,331	6,113
	<u>48,895</u>	<u>10,832</u>
Less: Provision for doubtful loans receivable	(20,486)	—
	<u><u>28,409</u></u>	<u><u>10,832</u></u>

Other loans receivable relates to the VSC Group's finance business and bears interest at rates of HIBOR plus 3% or 30% per annum (2000 — 30% per annum).

During the year, the VSC's Directors reviewed and assessed the collectibility of certain loans receivable and determined to provide for doubtful loans receivable of approximately \$20,486,000 (2000 — Nil).

(Amounts expressed in Hong Kong dollars unless otherwise stated)

24. PLEDGED BANK DEPOSITS

As at 31st March, 2001, the VSC Group's pledged bank deposits of approximately \$5,492,000 (2000 — \$19,278,000) were placed with a bank in Mainland China as collateral for the VSC Group's obligations to customs authorities.

25. SHORT-TERM BANK BORROWINGS

Short-term bank borrowings (consolidated) consisted of:

	2001 \$'000	2000 \$'000
Trust receipts bank loans	89,490	291,267
Short-term bank loans	17,280	42,261
	<u>106,770</u>	<u>333,528</u>

Trust receipts bank loans were secured by inventories released under such loans (see Notes 20 and 35). Details of the VSC Group's banking facilities are set out in Note 35.

26. ACCOUNTS PAYABLE

Ageing analysis of accounts payable (consolidated) is as follows:

	2001 \$'000	2000 \$'000
0 to 60 days	69,296	74,724
61 to 120 days	1,287	5,592
121 to 180 days	439	277
181 to 365 days	2,158	—
Over 365 days	1,023	—
	<u>74,203</u>	<u>80,593</u>

27. DEFERRED TAXATION

Movements of deferred taxation (consolidated) were:

	2001 \$'000	2000 \$'000
Beginning of year	1,497	863
Provision for net timing differences	573	634
End of year	<u>2,070</u>	<u>1,497</u>

Deferred taxation represented the taxation effect of accelerated depreciation of property, plant and equipment for taxation purposes.

There was no significant unprovided deferred taxation as at 31st March, 2001. No deferred tax on the revaluation surplus was provided because the revaluation does not constitute a timing difference as the VSC Group intends to hold the investments for long term and accordingly the realisation of such surplus is not subject to taxation in Hong Kong.

28. SHARE CAPITAL

Movements were:

	2001		2000	
	Number of shares '000	Nominal value \$'000	Number of shares '000	Nominal value \$'000
Authorised (Ordinary shares of \$0.10 each)	<u>1,000,000</u>	<u>100,000</u>	<u>1,000,000</u>	<u>100,000</u>
Issued and fully paid (Ordinary shares of \$0.10 each)				
Beginning of year	340,882	34,088	297,038	29,704
Issued under a share placement	—	—	30,000	3,000
Issued upon acquisition of subsidiaries	—	—	5,900	590
Issued upon exercise of warrants (Note 29)	23,936	2,394	2,674	267
Issued upon exercise of employee share options (Note 30)	300	30	6,870	687
Repurchase of shares (i)	(9,830)	(983)	(1,600)	(160)
End of year	<u>355,288</u>	<u>35,529</u>	<u>340,882</u>	<u>34,088</u>

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(Amounts expressed in Hong Kong dollars unless otherwise stated)

28. SHARE CAPITAL (Cont'd)

Note —

- (i) During the year ended 31st March, 2001, VSC repurchased, through The Stock Exchange of Hong Kong Limited, 9,830,000 shares (2000 — 1,600,000 shares) at an aggregate consideration of approximately \$19,969,000 (2000 — \$2,842,000), including transaction costs of approximately \$81,000 (2000 — \$11,000). These shares were subsequently cancelled. The aggregate cost of the repurchase of shares of approximately \$19,969,000 (2000 — \$2,842,000) was transferred from retained profit to capital redemption reserve. Details of such repurchases were as follows:

Month of repurchase	Number of shares repurchased '000	Price per share		Amount paid \$'000
		Highest	Lowest	
April 2000	9,530	\$3.025	\$1.790	19,473
May 2000	88	\$1.480	\$1.470	130
June 2000	<u>212</u>	\$1.370	\$1.340	<u>285</u>
	<u>9,830</u>			19,888
Transaction costs				<u>81</u>
				<u>19,969</u>

29. WARRANTS

During the year ended 31st March, 2001, certain warrants were exercised to subscribe for approximately 23,936,000 shares (2000 — 2,674,000 shares) of VSC at a consideration of approximately \$47,872,000 (2000 — \$5,348,000). As at 31st March, 2001, VSC had outstanding warrants conferring rights to subscribe up to approximately \$69,423,000 (2000 — \$117,295,000) for shares in VSC at a subscription price of \$2.00 per share (subject to adjustment) which are exercisable during the period from 16th February, 2000 to 16th February, 2002.

30. EMPLOYEE SHARE OPTIONS

VSC has an employee share option scheme, under which it may grant options to employees (including executive directors) of the VSC Group to subscribe for shares in VSC, subject to a maximum of 10% of the nominal value of the issued share capital of VSC from time to time, excluding for this purpose shares issued on the exercise of options. The subscription price will be determined by VSC's Board of Directors, and will be the higher of the nominal value of the shares and 80% of the average of the closing price of the shares quoted on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of offer of the options.

Movements of employee share options were:

Date of grant	Exercise period	Subscription price per share	Number of employee share options			End of year
			Beginning of year	Exercised	Cancelled upon resignation	
			'000	'000	'000	'000
3rd March, 1994	1st April, 1996 to 31st March, 2003	\$0.9360	6,000	—	—	6,000
17th December, 1994	15th January, 1997 to 15th January, 2004	\$1.1344	6,800	(300)	—	6,500
18th January, 1996	15th January, 1997 to 15th January, 2004	\$1.2528	4,000	—	—	4,000
30th April, 1996	1st May, 1998 to 22nd January, 2004	\$1.3840	3,300	—	—	3,300
10th January, 2000	1st February, 2002 to 22nd January, 2004	\$1.6880	1,810	—	(410)	1,400
			21,910	(300)	(410)	21,200
			21,910	(300)	(410)	21,200

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(Amounts expressed in Hong Kong dollars unless otherwise stated)

31. RESERVES

Movements of reserves were:

	2001							2000	
	Share premium \$'000	Capital redemption reserve \$'000	Contributed surplus \$'000	Other reserves \$'000	Capital reserve \$'000	Asset revaluation reserve \$'000	Cumulative translation adjustments \$'000		Total \$'000
Consolidated									
Beginning of year	254,768	2,842	—	301	—	(10,109)	(2,191)	245,611	120,221
Premium arising from issue of shares upon									
— a share placement	—	—	—	—	—	—	—	—	115,500
— acquisition of subsidiaries	—	—	—	—	—	—	—	—	9,440
— exercise of warrants (Note 29)	45,478	—	—	—	—	—	—	45,478	5,081
— exercise of employee share options (Note 30)	310	—	—	—	—	—	—	310	7,630
Share issuance expenses	—	—	—	—	—	—	—	—	(2,698)
Repurchase of shares (Note 28)	(18,986)	19,969	—	—	—	—	—	983	160
Surplus on revaluation of shares in iSteelAsia.com Limited upon its listing	—	—	—	—	—	556,537	—	556,537	—
Realisation of surplus upon distribution in specie of shares in iSteelAsia.com Limited	—	—	—	—	—	(281,826)	—	(281,826)	—
Deficit on revaluation of long-term investments	—	—	—	—	—	(221,010)	—	(221,010)	(10,109)
Realisation of deficit as impairment loss (Note 19)	—	—	—	—	—	10,109	—	10,109	—
Transfer from retained profit to capital reserve (Note 6)	—	—	—	—	58,355	—	—	58,355	—
Translation adjustments	—	—	—	—	—	—	(122)	(122)	386
End of year	<u>281,570</u>	<u>22,811</u>	<u>—</u>	<u>301</u>	<u>58,355</u>	<u>53,701</u>	<u>(2,313)</u>	<u>414,425</u>	<u>245,611</u>
VSC									
Beginning of year	254,768	2,842	53,986	—	—	—	—	311,596	176,483
Premium arising from issue of shares upon									
— a share placement	—	—	—	—	—	—	—	—	115,500
— acquisition of subsidiaries	—	—	—	—	—	—	—	—	9,440
— exercise of warrants (Note 29)	45,478	—	—	—	—	—	—	45,478	5,081
— exercise of employee share options (Note 30)	310	—	—	—	—	—	—	310	7,630
Share issuance expenses	—	—	—	—	—	—	—	—	(2,698)
Repurchase of shares (Note 28)	(18,986)	19,969	—	—	—	—	—	983	160
End of year	<u>281,570</u>	<u>22,811</u>	<u>53,986</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>358,367</u>	<u>311,596</u>

Under The Companies Act 1981 of Bermuda, contributed surplus is distributable to shareholders subject to the condition that VSC cannot declare or pay a dividend, or make a distribution out of contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they became due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

VSC's reserves (excluding retained profit) as at 31st March, 2001 available for distribution to shareholders were represented by the contributed surplus of approximately \$53,986,000 (2000 — \$53,986,000).

32. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

a. Reconciliation of profit before taxation to net cash inflow from operating activities:

	2001 \$'000	2000 \$'000
Profit before taxation	325,187	111,988
Interest income	(4,778)	(3,270)
Interest expense	11,732	14,907
Depreciation of property, plant and equipment	13,842	9,440
Share of profit of associates	(89)	(2)
(Gain) Loss on investments	(323,850)	2,732
Loss on investment properties	33,630	1,680
Provision for impairment in value of property, plant and equipment in respect of the discontinuing operations	9,701	—
Net loss on disposal of property, plant and equipment	125	171
Decrease (Increase) in inventories	182,036	(94,005)
(Increase) Decrease in gross amount due from (to) customers for installation contract work	(9,899)	10,741
Increase in prepayments, deposits and other receivables	(465)	(10,639)
(Increase) Decrease in advances to suppliers	(2,574)	2,242
(Increase) Decrease in accounts receivable	(19,962)	57,174
Increase in loans receivable	(17,577)	(8,332)
(Decrease) Increase in bills payable	(61,953)	69,336
Increase (Decrease) in accounts payable	7,898	(83,196)
Decrease in receipts in advance	(20,951)	(29,765)
Increase in accrued liabilities	12,340	5,495
	<hr/>	<hr/>
Net cash inflow from operating activities	134,393	56,697

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(Amounts expressed in Hong Kong dollars unless otherwise stated)

32. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

b. Disposal of interests in subsidiaries:

Details of the assets and liabilities disposed of as at the date of disposal of interests in subsidiaries are —

	\$'000
Property, plant and equipment	241
Other non-current assets	3,762
Inventories	4,795
Prepayments, deposits and other receivables	18,826
Accounts receivable	25,346
Short-term bank borrowings	(25,000)
Accounts payable	(14,288)
Accrued liabilities	(21,445)
Taxation payable	(1,693)
	<u>(9,456)</u>
Net liabilities of the subsidiaries upon disposal	<u>(9,456)</u>
Attributable net liabilities of the subsidiaries disposed of	(2,820)
Dilution gain	21,214
	<u>18,394</u>
Consideration received	<u>18,394</u>
Satisfied by	
— Cancellation of promissory note	17,000
— Cash received	1,394
	<u>18,394</u>
Analysis of the net inflow of cash and cash equivalents resulting from disposal of interests in subsidiaries	
— Short-term bank borrowings	25,000
— Consideration received in cash	1,394
	<u>26,394</u>

32. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

c. Analysis of changes in financing is:

	Share capital and share premium \$'000	Long-term bank loan \$'000	Total \$'000
1st April, 1999	152,201	178	152,379
Issue of shares on a placement	118,500	—	118,500
Issue of shares upon exercise of warrants and employee share options	13,665	—	13,665
Share issuance expenses	(2,698)	—	(2,698)
Issuance of shares for acquisition of subsidiaries	10,030	—	10,030
Repurchase of shares	(2,842)	—	(2,842)
Repayment of long-term bank loan	—	(178)	(178)
	<hr/>	<hr/>	<hr/>
31st March, 2000	288,856	—	288,856
Issue of shares upon exercise of warrants and employee shares options	48,212	—	48,212
Repurchase of shares	(19,969)	—	(19,969)
	<hr/>	<hr/>	<hr/>
31st March, 2001	<u>317,099</u>	<u>—</u>	<u>317,099</u>

d. Analysis of cash and cash equivalents is:

	2001 \$'000	2000 \$'000
Cash and bank deposits	50,249	156,761
Trust receipts bank loans	(89,490)	(291,267)
Short-term bank loans	(17,280)	(42,261)
	<hr/>	<hr/>
	<u>(56,521)</u>	<u>(176,767)</u>

(Amounts expressed in Hong Kong dollars unless otherwise stated)

33. COMMITMENTS AND CONTINGENT LIABILITIES**a. Capital commitments**

	2001 \$'000	2000 \$'000
Authorised and contracted for — purchase of machinery and equipment	9,320	1,682
Authorised and not contracted for — purchase of machinery and equipment	24,009	—
	<u>33,329</u>	<u>1,682</u>

b. Operating lease commitments

Total commitments payable under various non-cancellable operating lease agreements in respect of rented premises and motor vehicles are analysed as follows:

	2001 \$'000	2000 \$'000
Amounts payable — within one year	9,918	11,213
— between two and five years	7,443	14,542
	<u>17,361</u>	<u>25,755</u>

The commitments payable within the next twelve months are analysed as follows:

	2001 \$'000	2000 \$'000
Leases expiring within a period of — one year	3,760	753
— two to five years	6,158	10,460
	<u>9,918</u>	<u>11,213</u>

33. COMMITMENTS AND CONTINGENT LIABILITIES (Cont'd)

c. Contingent liabilities

Contingent liabilities not provided for in the financial statements were:

	Consolidated		Company	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Guarantees provided by VSC in respect of banking facilities of its subsidiaries	—	—	1,245,948	1,413,168
A guarantee provided by a subsidiary in respect of a bank loan granted to an investee company	2,340	2,335	—	—
A guarantee provided by a subsidiary in lieu of rental deposit of a premise	2,744	2,744	—	—
A guarantee provided by a subsidiary in lieu of a performance bond	1,300	1,300	—	—
	<u>6,384</u>	<u>6,379</u>	<u>1,245,948</u>	<u>1,413,168</u>

(Amounts expressed in Hong Kong dollars unless otherwise stated)

34. PENSION SCHEMES

The VSC Group had arranged for its Hong Kong employees to participate in defined contribution provident funds (the "Original Scheme"), which were managed by an independent trustee. Each of the VSC Group and its employees in Hong Kong made monthly contributions to the scheme at 5% to 10% of the employees' basic salaries. The employees were entitled to receive their entire contribution and the accrued interest thereon, and 100% of the VSC Group's contribution and the accrued interest thereon upon retirement or leaving the VSC Group after completing ten years of service or at a reduced scale of 30% to 90% after completing three to nine years of service.

From 1st December, 2000, the VSC Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the VSC Group and its employees makes monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. Both the VSC Group's and the employees' contributions are subject to a cap of \$1,000 per month and thereafter contributions are voluntary.

As stipulated by rules and regulations in Mainland China, the VSC Group contributes to state-sponsored retirement plans for its employees in Mainland China. The VSC Group contributes approximately 14% to 20% of the basic salaries of its employees, and has no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees.

During the year ended 31st March, 2001, the aggregate amount of the VSC Group's contributions to the aforementioned pension schemes was approximately \$1,771,000 (2000 — \$1,752,000). The amount of forfeited contributions utilised to reduce the VSC Group's employer contributions to the Original Scheme was approximately \$628,000 (2000 — \$566,000). As at 31st March, 2001, there was no material forfeited contribution available to reduce the VSC Group's employer contribution payable in future periods.

35. BANKING FACILITIES AND PLEDGE OF ASSETS

As at 31st March, 2001, the VSC Group had aggregate banking facilities of approximately \$1,548,355,000 (2000 — \$1,317,726,000) for overdrafts, loans, and trade financing. These facilities were secured by:

- (i) the VSC Group's inventories held under trust receipts bank loan arrangements (see Notes 20 and 25); and
- (ii) guarantees provided by VSC.