THE FOLLOWING MANAGEMENT DISCUSSION AND ANALYSIS SHOULD BE READ IN CONJUNCTION WITH CONSOLIDATED ACCOUNTS AND NOTES THERETO INCLUDED ELSEWHERE HEREIN.

(Note: The financial years ended 31st March 2003 and 2004 are referred to herein as FY2003 and FY2004, respectively. Certain comparative figures in FY2003 have been reclassified to conform with the presentation in FY2004.)

(1) Consolidated Profit and Loss Account

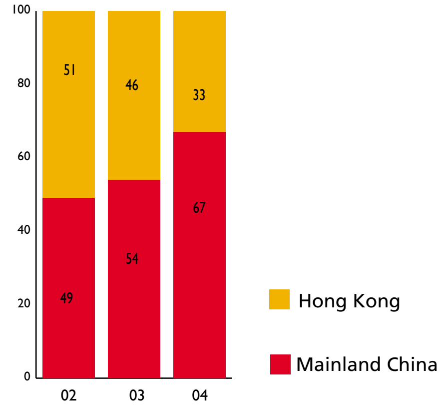
Ref		FY2004 HK$'000	FY2003 HK$'000	% Change
1.1	Turnover	**3,549,110**	2,755,769	+29%
	Cost of sales	**(3,314,790)**	(2,536,655)	+31%
1.1	Gross profit	**234,320**	219,114	+7%
	Other revenue			
	— Interest income	**6,310**	4,887	+29%
	— Dividend income from a long-term investment	**374**	188	+99%
	— Return from a joint venture	**4,344**	6,615	-34%
1.2	Selling and distribution expenses	**(21,352)**	(17,107)	+25%
1.2	General and administrative expenses	**(119,498)**	(135,148)	-12%
	Surplus/(Deficit) on revaluation of investment properties	**2,818**	(1,500)	N/A
	Gain on disposal of an investment property	**2,476**	—	N/A
	Operating profit	**109,792**	77,049	+42%
1.3	Finance costs	**(13,337)**	(11,144)	+20%
	Profit before taxation and minority interests	**96,455**	65,905	+46%
1.4	Taxation	**(11,061)**	(2,164)	+411%
	Minority interests	**(4,331)**	(3,329)	+30%
1.5	Profit attributable to shareholders	**81,063**	60,412	+34%
1.6	Dividends per share	**HK5.9 cents**	HK5.8 cents	+2%
1.7	Earnings per share			
	— Basic	**HK24.6 cents**	HK17.4 cents	+41%
	— Diluted	**HK23.6 cents**	HK17.3 cents	+36%

Consolidated results

1.1 Turnover and gross profit

In line with the VSC Group's earlier stated intention to expand in the fast growing China market, the 29% increase in turnover was mainly attributable to the increase in turnover from steel processing and distribution in Mainland China. Total turnover from Mainland China accounted for approximately 67% of total turnover as compared to 54% in FY2003. 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 whereby transactions are generally done on indent (similar to back-to-back) and cash on delivery (COD) basis, resulting in a relatively lower margin for the VSC Group. As such, overall gross margin of the VSC Group decreased from 8.0% to 6.6%.

Turnover by Geographical Segment
for the years ended 31st March
%



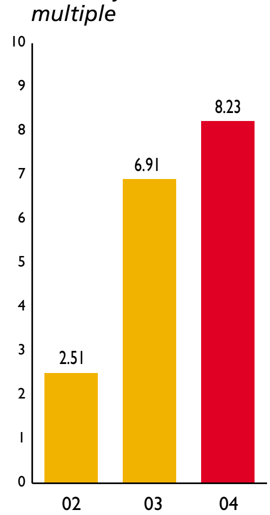
1.2 Operating expenses

Selling and distribution expenses were in line with the growth in turnover but increased by a lesser degree of 25%. This was due to the lower storage and transportation fee associated with the increase in indent sales. With the VSC Group's continuous efforts in cost saving, general and administrative expenses were reduced by approximately HK$16 million or a decrease of 12% from FY2003. Savings mainly stem from the reduction in office rental costs and professional fees. Since majority of the purchase contracts were in US dollar, the VSC Group benefited from the weak US dollar in the second half of FY2004 by hedging with exchange rate forward contracts at favourable rates. A net exchange gain of approximately HK$3.6 million was recorded whereby the net exchange loss for FY2003 was approximately HK$0.4 million.

1.3 Finance costs

The increase was the result of increase in trade thus more fully utilising the trade lines. In addition, during FY2004, the VSC Group had arranged a term loan for the VSC Group to expand businesses through investment. Interest charges of this HK$250 million three-year syndication loan and increase in borrowings in RMB loans for its investments and operations in Mainland China were levied at higher rates than the normal short-term trade line trust receipts loans available to the VSC Group in Hong Kong. Such increases in finance costs were however alleviated by conversion of most of the trust receipts loans from US dollar to Hong Kong dollar to enjoy the lower interest rate on HIBOR instead of LIBOR as a result of the weak US dollar. Interest cover (operating profit divided by finance costs) improved to about 8.23 (FY2003: 6.91) as a result of the improvement in operating profit. The VSC Group will closely monitor the trend of interest rate and will utilise, if necessary, appropriate financial instruments to hedge against any significant fluctuation.

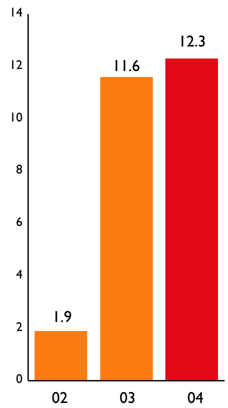
Interest Cover
for the years ended 31st March
multiple



1.4 Taxation

The substantial 411% increase in taxation was mainly attributable to the write-back of taxation provision of HK$5 million in FY2003 and partly attributable to the increase of Hong Kong profits tax rate from 16% to 17.5%. Excluding such write-back, the increase in taxation was only 52% and was in line with the 46% growth in profit before taxation. Most of the CAMP operations including VJY, TJCC and GZCC are currently still under tax holidays and are exempted from Mainland China enterprise income tax. During the year, DGCC was awarded the status of New and High Technology Enterprise as well as Advanced Technology Enterprise and could thus enjoy further reduction in PRC income tax rate in coming years.

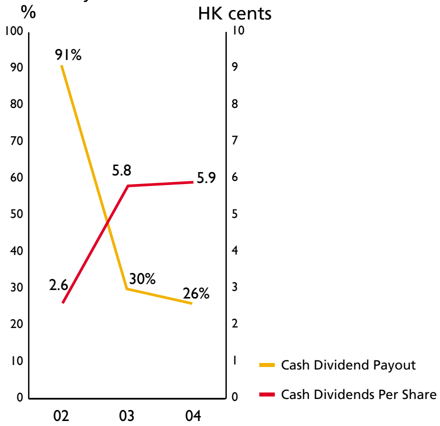
Return on Equity
as at 31st March
%



1.5 Profit attributable to shareholders

Profit attributable to shareholders increased by 34% to HK$81 million. Net profit margin (profit attributable to shareholders divided by turnover) improved from 2.2% in FY2003 to 2.3% in FY2004. Return on equity (profit attributable to shareholders divided by shareholders' equity) improved to 12.3% (FY2003: 11.6%) while return to total assets (profit attributable to shareholders divided by total assets) slightly decreased to 4.0% (FY2003: 4.3%).

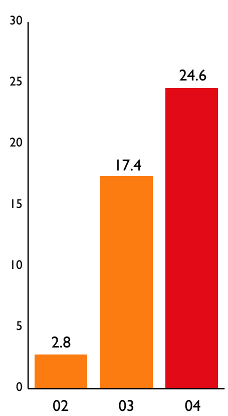
Cash Dividend Payout/ Cash Dividends Per Share
for the years ended 31st March
% HK cents



1.6 Dividend

Cash dividend payout (total cash dividends proposed for the year divided by profit attributable to shareholders X 100%) decreased to around 26% (FY2003: 30%). It is the VSC Group's policy to try to pay dividends to reward its shareholders. Taken into account its stated strategy for further expansion, especially in the CAMP operations, the management will balance the goal to achieve an attractive yield return for its shareholders while maximising the VSC Group's shareholders' value in the medium to longer term. The total cash dividends per share for FY2004 were HK5.9 cents (FY2003: HK5.8 cents).

Basic Earnings Per Share
for the years ended 31st March
HK cents

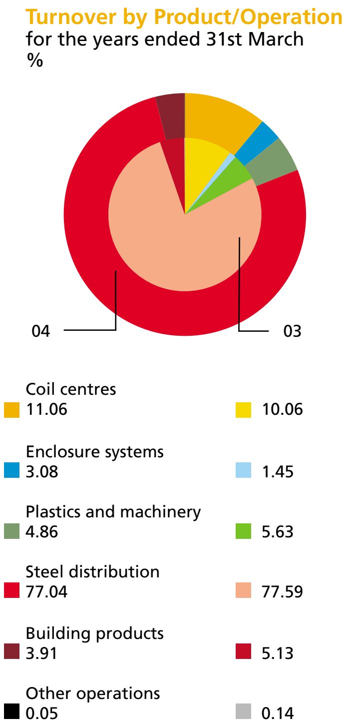


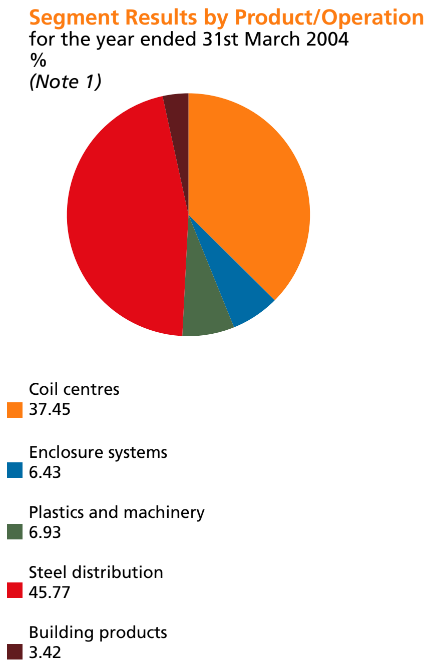
1.7 Earnings per share

Basic earnings per share increased by 41% to HK24.6 cents due to increase in profit attributable to shareholders coupled with the reduction in weighted average number of shares in issue during FY2004. The reduction in weighted average number of shares was attributable to the VSC Group's voluntary share repurchase exercise of approximately 53 million shares in January 2003, which was partially offset by the new issuance of approximately of 57 million new shares through placement and the exercises of warrants and share options throughout FY2004. Diluted earnings per share increased by 36% to HK23.6 cents.

Segment results

	Turnover			Segment results		
	FY2004	FY2003	% Change	**FY2004**	FY2003	% Change
	HK$'000	*HK$'000*		***HK$'000***	*HK$'000*	
CAMP						
— Coil centres	**392,513**	277,302	+42%	**51,544**	56,840	-9%
— Enclosure systems	**109,463**	39,986	+174%	**8,848**	(5,505)	N/A
— Plastics and machinery	**172,265**	155,063	+11%	**9,542**	7,916	+21%
CAMP total	**674,241**	472,351	+43%	**69,934**	59,251	+18%
CMG						
— Steel distribution	**2,734,287**	2,138,344	+28%	**62,994**	67,722	-7%
— Building products	**138,737**	141,258	-2%	**4,704**	(2,078)	N/A
CMG total	**2,873,024**	2,279,602	+26%	**67,698**	65,644	+3%
Other operations	**1,845**	3,816	-52%	**(644)**	329	N/A
	3,549,110	2,755,769	+29%	**136,988**	125,224	+9%

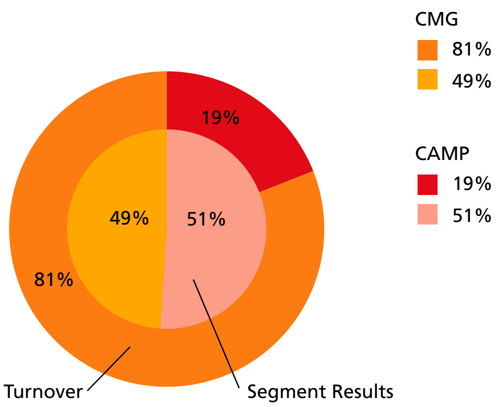




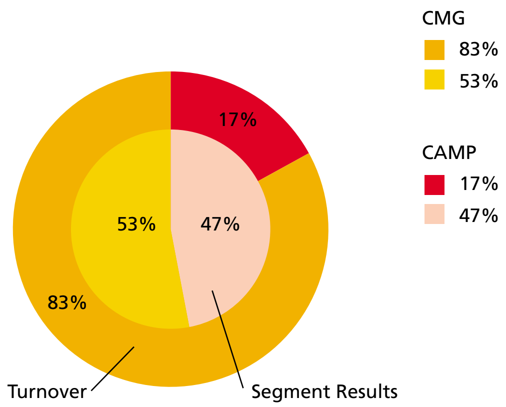
Note:

1. Other operations and comparative % figures for FY 2003 were excluded as certain of the respective segment results were loss figures.

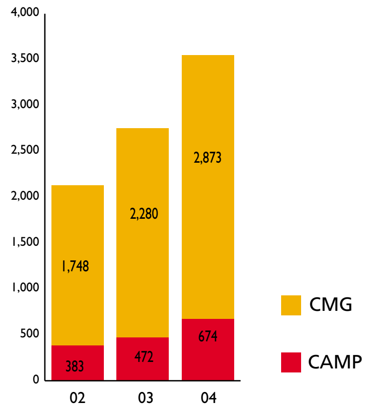
Turnover/Segment Results by Business Segment
for the year ended 31st March 2004
(Note 1)



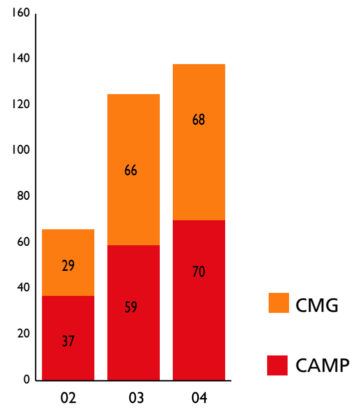
Turnover/Segment Results by Business Segment
for the year ended 31st March 2003
(Note 1)



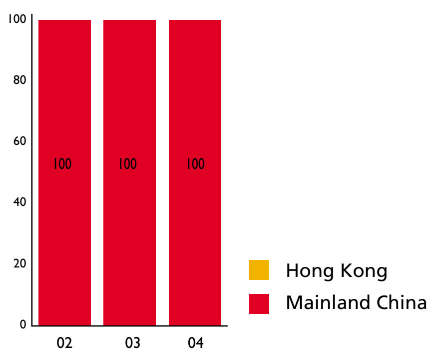
Turnover by Business Segment
for the years ended 31st March
HK$ million



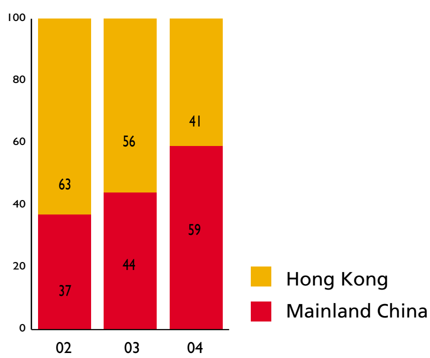
Segment Results by Business Segment
for the years ended 31st March
HK$ million



Turnover of CAMP by Geographical Segment
for the years ended 31st March
%



Turnover of CMG by Geographical Segment
for the years ended 31st March
%



Note:

1. Other operations were excluded in the presentation.

a) **China Advanced Materials Processing ("CAMP")**

CAMP operations became more significant within the VSC Group. Turnover was up 43% to approximately HK$674 million and was entirely derived from Mainland China. While accounting for only 19% (FY2003: 17%) of the VSC Group's total turnover, CAMP contributed 51% (FY2003: 47%) towards the VSC Group's segment results. Major profit contribution was still derived from the coil centre operations despite its decrease in segment results. With improved contribution from both VJY and plastics and machinery, CAMP finished FY2004 with 18% increase in segment results to approximately HK$70 million.

Coil centre operations had faced a very volatile operating environment during FY2004. First, the SARS epidemic had stagnated sales activities in the first half of the financial year. Then the soaring steel price for imported quality flat steel products eroded the profit margin. DGCC handled the two challenges relatively well. Sales boosted after SARS and turnover for FY2004 increased 27% to approximately HK$353 million. The increase in steel price was also managed by DGCC as an opportunity rather than a threat. By absorbing part of the increase in price, DGCC had formed a stronger bond with its customers. Average gross margin was down from 25% in FY2003 to 18% in FY2004 but was restored to a better level of over 20% towards the end of FY2004. TJCC commenced production in July 2003 and achieved breakeven in September 2003. Result was satisfactory and turnover reached approximately HK$38 million for the 9-month period in FY2004. Its segment results made an operating loss of about HK$0.7 million out of which HK$0.5 million was pre-operating cost. GZCC was only acquired in late March 2004 and thus had immaterial contribution to the results of FY2004. GZCC is however a well-established coil centre with production capacity similar to DGCC. Both TJCC and GZCC are therefore expected to contribute profit to the VSC Group in the future.

VJY was able to turnaround by harvesting from its earlier efforts on developing products and customers. With broadened customer base, turnover increased by 174% to approximately HK$109 million. Higher production volume and better production planning not only helped reduce materials procurement cost but also allowed VJY to utilise materials effectively. Thus, gross margin was improved significantly. In line with the growth in turnover, selling and distribution expenses increased 197% whereas general and administrative expenses increased by 20% which was mainly due to the increase in depreciation.

Plastics and machinery division finished FY2004 with 11% increase in turnover and 21% increase in segment results. Sales volume grew by 34%. During FY2004, the division had set up a sales team in Shenzhen. Another sales team will be set up in Guangzhou in mid 2004 to capture the domestic market for plastic resins.

b) **Construction Materials Group ("CMG")**

CMG operations had successfully extended its presence in Mainland China with most of its growth steming from steel distribution in Mainland China. Turnover was 26% up to approximately HK$2,873 million and was 59% (FY2003: 44%) derived from Mainland China. While accounting for a majority of 81% (FY2003: 83%) of the VSC Group's turnover, CMG contributed only 49% (FY2003: 53%) towards the VSC Group's segment results.

In terms of turnover, steel distribution division is the largest division of the VSC Group. Steel distribution in Hong Kong, which consists of stockholding of rebars, structural steel, and soil nails and couplers, remained stable with a mild 2% increase in turnover and a 5% decrease in gross profit. Sales of rebars improved by 7% to approximately HK$950 million while gross profit dropped by 2% to approximately HK$52 million. Structural steel business, however, recorded a drop in both turnover and gross profit by 19% and 14%, respectively. Soil nails and couplers business had a 17% growth in turnover.

The VSC Group continues to establish its presence in the PRC market. This can be seen as steel distribution in Mainland China experienced a more rapid growth. The VSC Group had achieved a rapid and deep penetration in the Shanghai market. The “Silent Piling” technology introduced during FY2004 was well received by the Shanghai construction market. The related demand for H-beams and sheet piles was strong and turnover for distribution of these two products exceeded HK$330 million. Together with distribution of other steel products in southern China, turnover for steel distribution in Mainland China totaled approximately HK$654 million. Ongoing purchasing arrangement with the iSteelAsia Group further brought in sales of approximately HK$156 million. The 66.7% owned joint venture, BSC, also had a remarkable year. Turnover jumped 55% to approximately HK$772 million and profit before minority interests increased by 27% from approximately HK$10 million to HK$13 million.

For FY2004, turnover generated from the building products division decreased by 2% to approximately HK$139 million. Segment results achieved a profit of approximately HK$5 million as compared to a loss of approximately HK$2 million in FY2003. The VSC Group decided to scale down the estate project based sizeable kitchen installation business after consideration of the uncertainties in future prospects, risks inherent and low profitability with such projects. As a result, turnover of the kitchen installation business dropped by 59% to approximately HK$41 million. However, the shrinkage was compensated by the increase in turnover of the project sales business and the retail business. Project sales of sanitary wares and tiles were up by 40% from FY2003 with improved gross margin, thanks to effort by the sales team and extensive marketing to increase awareness of the products through the retail showroom, Leisure Plus. Leisure Plus offered quality sanitary wares and kitchen cabinets to retail customers. Number of new customers increased substantially through referral from existing customers and promotion in home journals. Turnover increased by 238% to approximately HK$15 million and a turnaround from the loss position in FY2003 to become profitable was also achieved. During FY2004, building products division had ventured into the Mainland China market. The division had obtained distribution right of TOTO sanitary wares in Shanghai. Result was encouraging with turnover amounted to approximately HK$31 million.

(2) Consolidated Balance Sheet

Ref		2004 HK$'000	2004 HK$'000	2003 HK$'000	2003 HK$'000	% Change
		As at 31st March				
2.1	Fixed assets		**159,366**		125,789	+27%
	Investment properties		**36,448**		31,000	+18%
	Investment in associates		**2**		2	0%
2.2	Long-term investments		**60,012**		45,711	+31%
2.3	Goodwill		**8,290**		4,624	+79%
	Deferred tax assets		**447**		—	N/A
	Current assets:		**1,756,709**		1,211,578	+45%
2.4	Inventories	**695,941**		381,477		+82%
2.5	Due from customers on installation contract work	**11,450**		19,034		-40%
	Prepayments, deposits and other receivables	**88,231**		79,520		+11%
2.6	Accounts and bills receivable	**836,357**		655,025		+28%
	Loans receivable	**6,891**		6,891		0%
3.1	Pledged bank deposits	**8,374**		7,957		+5%
3.1	Cash and other bank deposits	**109,465**		61,674		+77%
	Current liabilities:		**(1,239,224)**		(871,073)	+42%
3.1	Short-term borrowings	**(798,610)**		(590,667)		+35%
	Accounts and bills payable	**(350,629)**		(212,020)		+65%
2.5	Due to customers on installation contract work	**(157)**		(4,590)		-97%
	Receipts in advance	**(34,168)**		(29,782)		+15%
2.7	Accrued liabilities and other payables	**(46,157)**		(27,938)		+65%
	Taxation payable	**(9,503)**		(6,076)		+56%
3.1	Long-term bank loan, non-current portion		**(97,222)**		(20,475)	+375%
	Deferred tax liabilities		**(104)**		(250)	-58%
	Net assets		**684,724**		526,906	+30%
2.8	Capital and reserves:					
	Share capital		**36,778**		31,226	+18%
	Reserves		**444,953**		356,222	+25%
	Retained profit		**168,529**		114,845	+47%
	Proposed dividends		**10,298**		18,111	-43%
3.1	Shareholders' equity		**660,558**		520,404	+27%
	Minority interests		**24,166**		6,502	+272%
			684,724		526,906	+30%

As a whole, the VSC Group significantly increased its scale of operation with inflation of both assets and liabilities. Current assets and current liabilities increased by 45% and 42% respectively, as a result of the expanded scale of steel processing and distribution businesses, which geared up the inventories and accounts and bills receivable as well as the corresponding bank borrowings, accounts and bills payable.

2.1 Fixed assets

Net book value of fixed assets has increased by approximately HK$34 million. Total fixed assets additions during FY2004 amounted to approximately HK$21 million which included mainly capital investment in TJCC. Additions attributable to the acquisition of GZCC amounted to approximately HK$31 million. The increase was offset by annual depreciation charge of approximately HK$17 million and disposal of fixed assets with net book value of approximately HK$1 million.

2.2 Long-term investments

Long-term investments increased by approximately HK$14 million. In FY2004, the VSC Group invested approximately HK$8 million to additionally increase the stake of its investment in the joint venture with Beijing Shougang Group from 7.5% to 10%. The investments in iSteelAsia had been restated from approximately HK$15 million to approximately HK$22 million with reference to market share price at year-end. The increase of approximately HK$6.5 million was transferred to the investment revaluation reserve.

2.3 Goodwill

Goodwill increased by approximately HK$4 million. In late March 2004, the VSC Group acquired 70% beneficial interest in a coil centre in Guangzhou — GZCC. Goodwill arising from this acquisition amounted to approximately HK$4 million. Goodwill for the earlier acquisition of VJY was adjusted up by approximately HK$2 million as a result of an adjustment made to the consideration paid for the acquisition of the business. Amortisation of goodwill for FY2004 amounted to approximately HK$2 million.

2.4 Inventories

Steel price soared substantially during FY2004 reaching historical high over the past decade. Coupled with the addition of new businesses as well as the expansion of scales in existing operations, inventories increased by 82% to approximately HK$696 million from last year's level of approximately HK$381 million. Increase in inventories of approximately HK$314 million is shared among CAMP (HK$126 million) and CMG (HK$188 million). For CAMP, the majority of increase of approximately HK$97 million arose from coil centre operations with the expanded DGCC and the new TJCC plus GZCC. For CMG, the major addition came from the Hong Kong stockholding business with approximately HK$95 million of rebars and the balance mainly related to the new steel distribution business in Shanghai which are mostly goods in transit. All the rebars for Hong Kong business have been covered under fixed price contracts with local developers and contractors, and such increase in stock position was inflated by the rise in steel price (increase of average unit cost was about 33%) as the increase in terms of tonnage was only 13% against the 49% increase in dollar value. As a result of such substantial increase in year-end inventories, overall inventory turnover (average inventories divided by cost of sales X 365 days) increased to about 59 days (FY2003: 43 days). The overall exposure was closely monitored by centralising the steel purchasing function for the entire operations, which was carried out by a team of experienced professionals who are well versed in the price trend and demand and supply of steel.

2.5 Due from/to customers on installation contract work

This amount represents the outstanding contract sum due from/to customers for kitchen cabinets installation contract work completed less any progress billings received and receivable as at year-end and any foreseeable losses. The major contract in progress at year-end was Parc Palais, King's Park. As the VSC Group completed most of its large kitchen cabinets projects, the gross amount due from/ to customers for kitchen cabinets installation contract work at year-end decreased to approximately HK$11 million and HK$0.2 million, respectively.

2.6 Accounts and bills receivable (AR)

AR, net of provision for bad and doubtful debts, surged by 28% or approximately HK$181 million. The increase was basically in line with the increase in overall consolidated turnover of 29% and was mainly attributable to increased coil centre operations and expansion in VJY's turnover as well as BSC (which had a 55% increase in turnover).

The VSC Group has been very careful in its AR management and is always very cautious in developing business and expanding the customer portfolio. For steel distribution in Mainland China such as H-beams in Shanghai, which involved substantial dollar amount per transaction, only cash on delivery basis would be adopted. For other businesses like CAMP, credit would only be granted to reputable and financially strong domestic customers such as Huawei, Zhongxing and Kelon, or those large Hong Kong-based or Taiwan-based OEM manufacturers. The VSC Group's centralised internal credit control department closely monitored performance of each account with computerised system comparing real-time production or sales orders against pre-set credit criteria. The effectiveness of the AR management could be reflected by the very low provision for/write-off of bad and doubtful debts of only HK$0.6 million (FY2003: HK$2.8 million), which accounts for only 0.017% of the annual turnover of HK$3.5 billion. Overall AR turnover (average AR divided by turnover X 365 days) was approximately 77 days (2002: 75 days).

During the normal course of its businesses, the VSC Group offered credit terms ranging from 30 to 90 days. An ageing analysis of AR based on delivery date was as follows:

	As at 31st March 2004 *HK$ million*	As at 31st March 2003 *HK$ million*
0 to 60 days	**489.8**	416.8
61 to 120 days	**120.4**	151.0
121 to 180 days	**41.9**	42.3
181 to 365 days	**135.3**	43.2
Over 365 days	**61.7**	16.3
	849.1	669.6
Less: Provision for bad and doubtful debts	**(12.8)**	(14.6)
	836.3	655.0

The substantial increases of aged AR in both bands of over 181 days to 365 days and over 365 days were related to the due from the iSteelAsia Group. As disclosed previously, the VSC Group has arranged to source and supply steel to the iSteelAsia Group to facilitate its expansion of business, resulting in bulk purchase benefit by aggregating demands of the two groups. The steel so supplied was transacted under normal commercial credit term of the VSC Group and interest of approximately HK$5,672,000 was charged at commercial lending rates for overdue balances. The amount due from the iSteelAsia Group was approximately HK$206 million as at 31st March 2004 (2003: HK$210 million), in which approximately HK$105 million and HK$50 million falling under the ageing of over 181 days and over 365 days, respectively. The iSteelAsia Group has been expanding very fast with its first 9-month turnover in the current fiscal year, surging 117% to approximately HK$1,123 million (FY2003: HK$811 million). As a newly established group with limited financial banking facilities pursuing a fast growth in turnover, the iSteelAsia Group has, as compared to last year, occasionally delayed in its repayment of the balance due to the VSC Group in order to promptly capture market opportunity arising from time to time, such as securing some competitive domestic purchase of steel in Mainland China. The VSC Group maintained close communication with the iSteelAsia Group and was satisfied on its management's ability to conduct its businesses in a healthy financial manner. Subsequent to 31st March 2004 and upto 31st May 2004, amount of approximately HK$68 million has been repaid by the iSteelAsia Group, which fully covered the overdue of over 365 days. The VSC Group would continue to proactively monitor its investment in the iSteelAsia Group for better business synergy and mitigate the risk of exposure prudently.

2.7 Accrued liabilities and other payables

Accrued liabilities and other payables increased by 65% or approximately HK$18 million. The main reason was the increase in value added tax payable of approximately HK$9 million associated with the increasing domestic sales in Mainland China. Other increases were derived from additional accrued expenses in proportion to the expanded operations.

2.8 Capital and reserves

Increase in nominal value of share capital of about HK$6 million was mainly attributable to the issue of shares upon placement as well as exercise of warrants and share options. Increase in reserves of about HK$135 million was mainly attributable to (i) approximately HK$76 million increase due to issuance of shares (ii) approximately HK$7 million surplus on revaluation of long-term investments and (iii) approximately HK$81 million profit of FY2004, which was offset by approximately HK$29 million dividend paid during FY2004.

(3) Financial Resources and Liquidity

3.1 Liquidity and financing

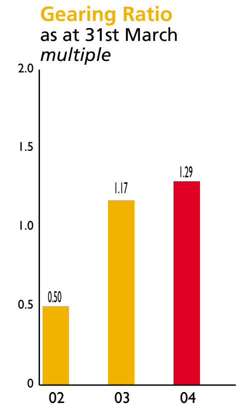
As shown in the consolidated cash flow statement, the VSC Group's cash and cash equivalents had increased from approximately HK$62 million to HK$109 million as at 31st March 2004. In FY2004, the VSC Group acquired the new GZCC and expanded businesses of existing operations in Mainland China. As shown in note 32(a) to the accompanying accounts, coupled with an increasing steel price, inventories and AR increased (excluding increases attributable to acquisition of GZCC which were separately shown in note 32(b) to the accompanying accounts) by approximately HK$281 million and HK$153 million, respectively. Such substantial growth in businesses and current assets had led to net cash outflow absorbed by operations of approximately HK$189 million, nevertheless, the VSC Group is still able to achieve an improvement by decreasing from a net cash outflow amount of approximately HK$236 million in FY2003. The sources of financing such increased demand in cash flow were mainly from bank loans, trust receipts bank loans and share placement. Net cash inflow generated from these financing activities was approximately HK$293 million.

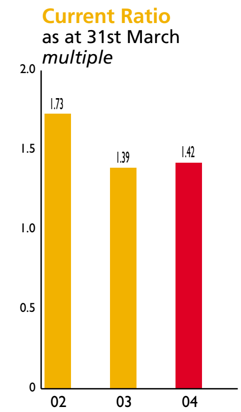
The VSC Group's shareholders' equity increased by 27% to approximately HK$661 million as at 31st March 2004 as compared to approximately HK$520 million at the end of last financial year.

As at 31st March 2004, the VSC Group's cash and bank deposits totaled approximately HK$118 million (2003: HK$70 million) of which about 31.4% were denominated in HK dollar, 40.8% in US dollar, 27.0% in Renminbi(RMB) and 0.8% in other currencies.

As at 31st March 2004, the VSC Group's total borrowings amounted to approximately HK$896 million of which interest bearing borrowings totaled approximately HK$851 million (2003: HK$611 million). Net interest bearing borrowings, after deducting cash and bank deposits of approximately HK$118 million, amounted to approximately HK$733 million. The increase in borrowings was attributable to 1) expansion in business scale in both CAMP and CMG operations; 2) substantial increase in steel price; and 3) long-term syndicated bank loan drawn to cover various capital expenditures incurred before and during FY2004.

Gearing ratio at 31st March 2004, calculated on the basis of total interest bearing borrowings to shareholders' funds increased from 1.17 to 1.29 and current ratio was slightly improved from 1.39 to 1.42 as compared to 31st March 2003. The VSC Group is comfortable with these financial ratios at their current level. This is arrived at after taking due consideration of the VSC Group's current business operations while assessing the risk on overall exposure against industry norm. For FY2004, the VSC Group's business operations were financed by cash generated from its business activities, banking facilities and share placement. During FY2004, 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. A share placement was also completed in November 2003 for 33 million new shares at HK$1.8 per share, bringing in proceeds of approximately HK$55 million. The VSC Group is also negotiating with banks in Hong Kong and China for additional financing to support its business development. As at 31st March 2004, letter of credit and trust receipts loans facilities available were approximately HK$1.4 billion and HK$1.2 billion, respectively. Bank loans and bill acceptance facilities of approximately RMB110 million were obtained to mitigate exposure on its Mainland China operation. The VSC Group also had an outstanding warrant exercisable on or before 18th November 2004, which if fully subscribed could bring in proceeds in the amount of approximately HK$32 million.





The maturity profile of the VSC Group's gross interest bearing borrowings was set out as follows:

	31st March 2004 **HK$ million**	31st March 2003 HK$ million
Repayable:		
Within one year	**754**	591
After one year but within two years	**55**	12
After two years but within three years	**42**	8
Total interest bearing borrowings	**851**	611
Cash and bank deposits	**(118)**	(70)
Net interest bearing debts	**733**	541

The VSC Group's major current assets are inventories and AR. They are all very liquid and turn a few times a year. With substantial committed banking facilities in place and continuous cash inflow from business activities, the VSC Group is in a strong liquidity position and has sufficient financial resources to satisfy its capital commitments and ongoing working capital requirements for future expansion.

3.2 Treasury management and policies

All the VSC Group's financing and treasury activities are centrally managed and controlled at the corporate level. The VSC Group's overall treasury and funding policies focus on managing financial risks, including interest rate and foreign exchange risks, while providing cost efficient funding to the VSC Group and its group companies.

The VSC Group's businesses were primarily transacted in Hong Kong dollar, US dollar, RMB and Euro dollar. Majority of the VSC Group's inventory purchases were made in US dollar whereas majority of sales were denominated in HK dollar and RMB. The current peg system in Hong Kong had minimised the VSC Group's exposure in US dollar. Whereas in China, the VSC Group's various investments and assets totaling approximately HK$151 million were subject to foreign exchange exposure which was mitigated by RMB bank loans and bill acceptance facilities of approximately HK$104 million. The VSC Group will also continue to match RMB payments with RMB receipts to minimise exchange exposure. Transaction values involving Euro in Building Products department were relatively insignificant.

As at 31st March 2004, about 88.5% of the VSC Group's interest bearing borrowings were denominated in HK dollar, 3.5% in US dollar, 7.7%in RMB and 0.3% in other currencies. Forward foreign currency contracts are entered into when suitable opportunities arise and when considered appropriate, to hedge against major non-HK dollar currency exposures. As at 31st March 2004, the total outstanding derivative instruments of the VSC Group represented forward foreign currency contracts, which were used to hedge principal repayment of future US dollars debts under letter of credit and Euro trust receipt loans in the amount of approximately HK$358 million.

Maturity profile of such off-balance sheet financial instruments as at 31st March 2004 was set out as below:

	HK$ million
By maturity:	
Within one year	292
After one year but within two years	66
	358

The majority of the VSC Group's borrowings were subject to floating rate basis in view of the present low interest rate environment. The use of financial derivative instruments is strictly controlled and solely for management of the interest rate and foreign currency exchange rate exposures in connection with the borrowings. It is the VSC Group's policy not to enter into derivative transactions for speculative purposes.

3.3 Contingent liabilities

As at 31st March 2004, the VSC Group had outstanding performance bonds for its kitchen cabinet installation and sanitary wares supply projects amounting to approximately HK$16 million (2003: HK$14 million) and a guarantee for a bank loan granted to an associate — Baosteel Jingchang — amounting to approximately HK$2 million (2003: HK$2 million)

3.4 Charges on assets

As at 31st March 2004, the VSC Group had certain charges on assets which included (i) bank deposits of approximately HK$8 million pledged for RMB bank facilities; (ii) inventories of approximately HK$15 million pledged for a RMB bank loan; (iii) land and buildings of approximately HK$9 million pledged for a RMB bank loan; and (iv) inventories held under short-term trust receipts bank loan arrangements in Hong Kong.