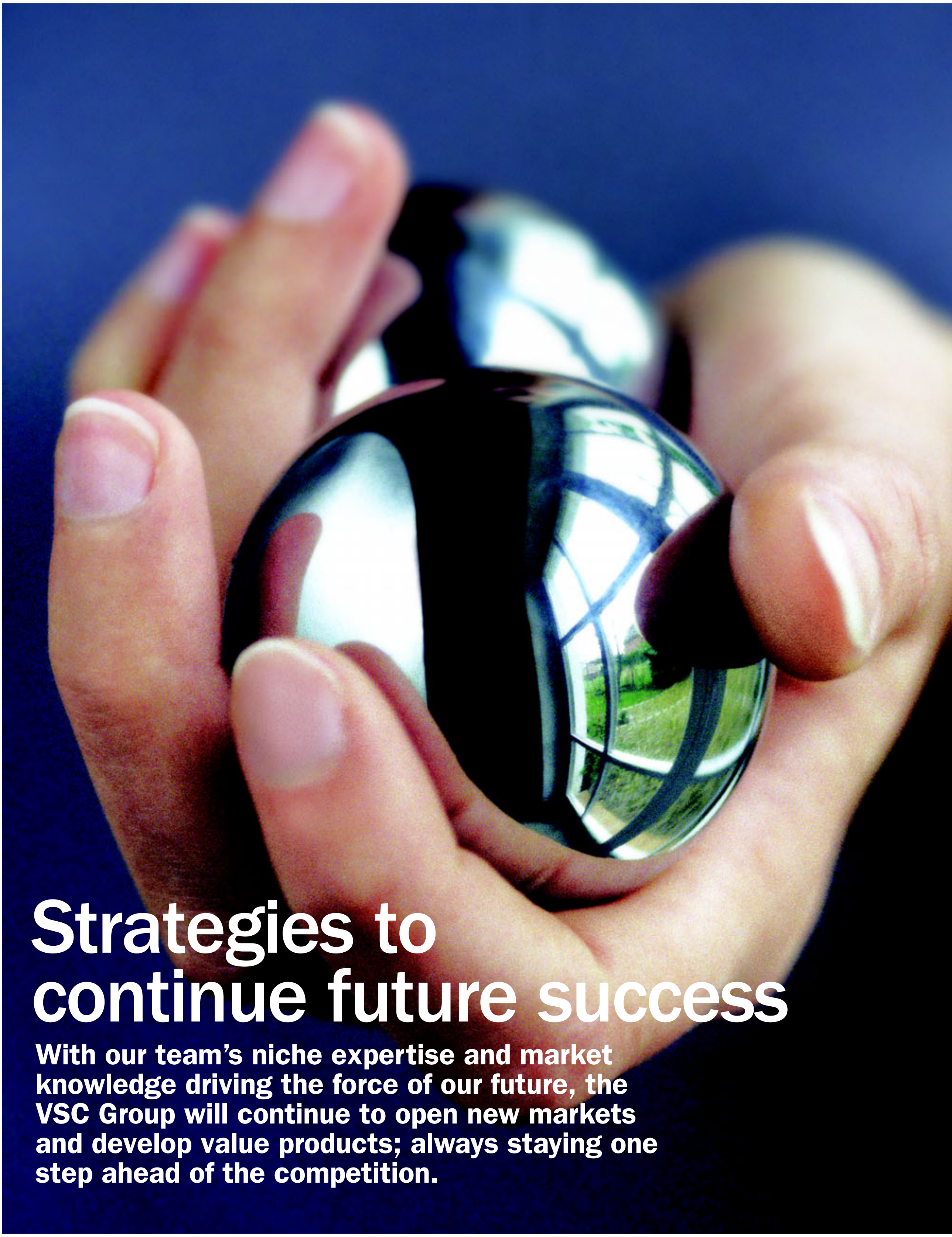
Management Discussion and Analysis



Strategies to continue future success

With our team's niche expertise and market knowledge driving the force of our future, the VSC Group will continue to open new markets and develop value products; always staying one step ahead of the competition.

"... the VSC Group was able to weather our adverse performance of Hong Kong steel operation by leveraging on its China steel processing and distribution businesses."

The VSC Group executed its strategies successfully and 2004/05 turnover grew 17% to a record high of HK$4.1 billion. However, profit attributable to shareholders fell by 49% to HK$41 million. Overall results were lower than last year, mainly because our Hong Kong steel operation suffered lost for the first time in history. Overall, the VSC Group was able to weather our adverse performance of Hong Kong steel operation by leveraging on its China steel processing and distribution businesses. The VSC Group will continue to execute its successful corporate strategies, with appropriate modifications to ensure it can handle volatile market conditions. The VSC Group's core corporate strategies are summarized as follows:

(1) STRENGTHEN OUR POSITION IN CHINA, THE WORLD'S STRONGEST GROWING ECONOMY

The VSC Group will continue to focus on developing its business potential in China, the world's fastest growing and emerging market. The VSC Group's China operations generated a turnover of HK$2,988 million in 2004/05, representing 72% of the total turnover as compared to 67% or HK$2,378 million in 2003/04. Fuelled by China's robust 9.5% GDP growth rate in 2004 and first quarter 2005, businesses in Shanghai, Tianjin, Shenzhen and Guangzhou focused on their niche markets.

(2) ADHERE TO HIGH GROWTH AND PROFITABLE SECTORS

The VSC Group closely monitors the demand of steel products from high growth target industries. During the year under review, the information technology, telecommunications and home appliances industries generated strong demand for steel and various steel finished products. The VSC Group responds rapidly to demand pattern shifts by realigning its resources to other sectors and products. Demand growth for steel in the construction and automobile parts industries was slower due to severe measures imposed by the Chinese government to limit excessive investments in several overheated industries including the real estate sector, coupled with keen competition within the target industry, which consequently led to a profit margin squeeze. Distribution of construction steel in Shanghai also slowed, while part investment in the Beijing Shougang PPGI distribution was withdrawn in order to shift capital to other higher growth sectors.

(3) ENHANCE CUSTOMER SATISFACTION AND COLLABORATION

The VSC Group continues to adopt a long-term view towards developing customer relationships, including building strategic alliances with reliable partners, such as large multinational companies. Substantial efforts are placed on improving customer relationships and key account management, with senior management leading the effort to systematically visit major customers, to keep up with latest market trends and to mitigate risk of market volatility.

(4) OFFER HIGH VALUE-ADDED SERVICES AND SOLUTION

The VSC Group consistently enhances its product offering and value-added services to provide a total solution. Capitalizing on strong support from various steel mills and customers, the core products portfolio has expanded to include stainless steel, aluminum, alcosta and galvalume, with plans to develop into other areas including metal products sourcing fabrication, logistics arrangement and downstream toll rolling.

(5) ENHANCE DISTRIBUTION NETWORK AND SUPPLY CHAIN

The VSC Group will continue to expand in China to support its distribution network, and allocate resources and/or re-organize corporate structure where necessary, including expansion of the new Shenzhen office, or consolidation of market coverage in Beijing and Tianjin by the Shanghai office. Strategic alliances with reputable steel suppliers Shinsho Corporation for the Guangzhou coil centre and MISI for the Tianjin coil centre lay the foundation for securing additional supplies of quality steel to cater for the growing distribution networks.

CAMP

China Advanced Materials Processing

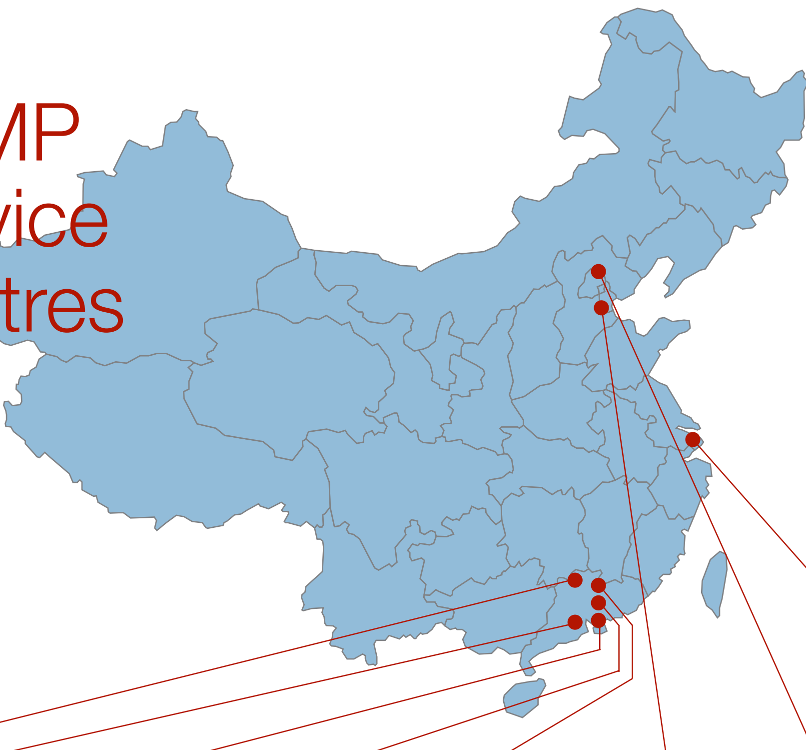
"The VSC Group's overall segment results were derived entirely from positive contribution from CAMP..."

CHINA ADVANCED MATERIALS PROCESSING ("CAMP")

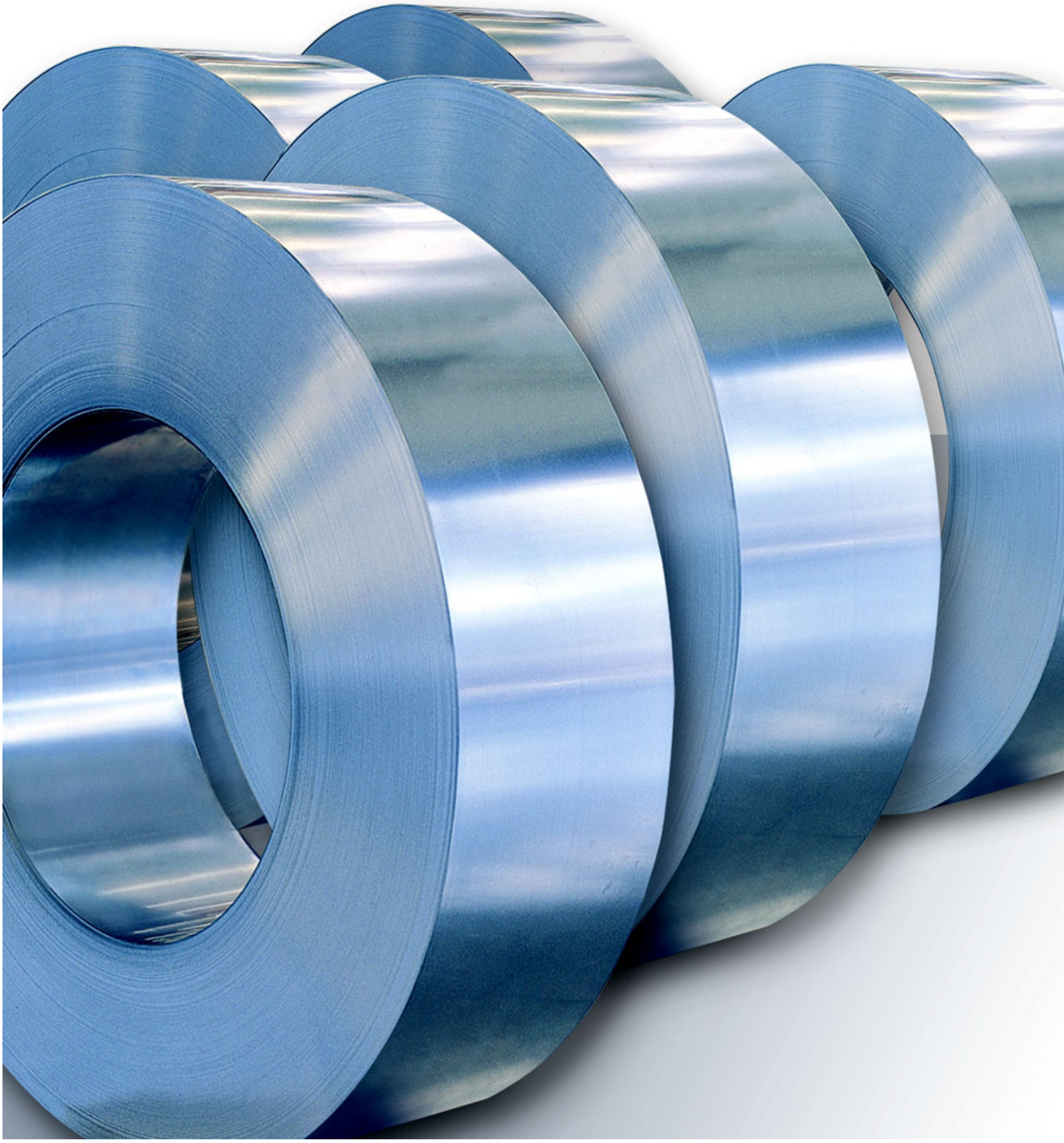
The VSC Group's CAMP operations comprise of three business units, 1) coil centre operations in Dongguan, Tianjin, Guangzhou and Nansha, which provide rolled steel processing services to OEM manufacturers of white goods, electrical appliances, computers and automobile parts; 2) manufacturing of customised enclosure systems in Shenzhen, which focuses on a variety of precision metal processing and assembly services, mainly for the telecommunications industry; 3) distribution of engineering plastic resins to industrial manufacturers of household appliances, audio/video equipments, telecommunications applications and computers located in China. For 2004/05, CAMP's turnover and segment results increased substantially by 91% to HK$1,289 million, and 49% to HK$104 million, respectively. The coil centres contributed impressive sales results to CAMP's overall turnover growth. The VSC Group's overall segment results were derived entirely from positive contribution from CAMP (as compared to 51% last year) due to CMG's exceptional losses in its segment results.

Engages in high profit margin, value-added physical processing, serving information technology and telecommunications, home appliances and automobile parts industries in China

CAMP Service Centres



Coil Centre



“... deliver value propositions... through just-in-time delivery, with short order lead time, reliable supply chain management, reduction in scrap and materials handling costs, savings in investment of machinery and factory space, ensured quality of steel, and flexible supply of product range.”

COIL CENTRE OPERATIONS

The Group’s coil centre operations consist of three main subsidiary factories in Dongguan, Tianjin and Guangzhou and 14% investment in a joint venture company in Nansha. The coil centres, which act as an essential intermediary in the steel consumption value chain between upstream suppliers (i.e. steel mills) and downstream customers (i.e. finished products/OEM manufacturers), enjoyed impressive growth in sales and profitability for the year under review. The centres were able to deliver value propositions to customers including less inventory through just-in-time delivery, with short order lead time, reliable supply chain management, reduction in scrap and materials handling costs, savings in investment of machinery and factory space, ensured quality of steel, and flexible supply of product range.

The **Dongguan coil centre (DGCC)**, running in its 10th year, remains the Group’s leading coil centre. Turnover soared about 42% to a record high of approximately HK$500 million, and sales volume increased by 17% to over 76,000 metric tonnes. Located in Humen, Dongguan, DGCC is in strategic proximity to many Hong Kong and Taiwan based OEM manufacturers of electrical appliances (DVD, LCD panel) and computers (notebook, printer) in Dongguan and nearby to the Pearl River Delta. DGCC focuses on serving a group of large volume users by capitalizing on excellence in operations, customer service and latest machinery technology. During the year, the price of high-end rolled flat steel products remained, with minor fluctuations, at a historical high level, due to rising raw material and transportation costs, and a global demand and supply inequality. The persistently high steel price caused concern to industrial customers who now find the cost of raw materials comprising a large proportion of their overall steel costs. Under such volatile market conditions, DGCC has excelled in managing price elasticity of high-volume customers by promoting alternatives of different grades of steel from the VSC Group’s worldwide suppliers. As a result, the gross margin was maintained and slightly reduced to 14% from 18% last year, with segment results reaching another record high of approximately HK$58 million, a 12% increase from HK$52 million last year. The management considers DGCC a mature operation; able to support high volume users at an acceptable margin to maximize profit.

"...the VSC Group entered into an agreement with MISI... not only enables TJCC obtain secured steel supply from MISI, but also leverage on MISI's strong network with major Japanese customers."

The **Tianjin coil centre (TJCC)** completed its first full year of operations in 2004/05 and showed tremendous progress within a relatively short start-up period. Turnover for 2004/05 amounted to approximately HK$156 million, up 311% from that of the 9-month period of 2003/04 (commenced operations since July 2003) of approximately HK$38 million. Profitability was attained with segment results of approximately HK$9 million, as compared to the operating loss of approximately HK$0.7 million last year. Based on the DGCC operation experience, the VSC Group could rapidly apply the operational system, and set up TJCC, secure re-export customers, and domestic markets in Bohai and northern China. TJCC's current key accounts include LG Electronics, Daewoo (microwave oven and air-conditioner), and Panasonic and local customers in automobile parts, welding, and metal precision services. To further maximize TJCC's potential, the VSC Group entered into an agreement with MISI, a major Japanese steel trading company, for strategic investment in TJCC operations. Such a strategic alliance not only enables TJCC obtain secured steel supply from MISI, but also leverage on MISI's strong network with major Japanese customers. TJCC is now preparing further investment in machinery and land, to enlarge production capacity to meet anticipated demand surge.

"Segment results for 2004/05 reached a historical high of about HK$18 million"

The 70% owned **Guangzhou coil centre (GZCC)**, acquired in late March 2004, gave an impressive first full year contribution in 2004/05. Situated in Huangpu, Guangzhou, GZCC is the third coil centre run and managed by the VSC Group. Turnover for the new fiscal year ended 31st March 2005, amounted to approximately HK$249 million, representing a 128% jump over the audited turnover of approximately HK$109 million for the previous fiscal year ended 31st December 2003. Segment results for 2004/05 reached a historical high of about HK$18 million, compared to GZCC's results prior to the acquisition.

"The VSC Group's partner, Shinsho Corporation, the core trading arm of Kobe Steel Group, provides strong support ..."

The VSC Group's partner, Shinsho Corporation, the core trading arm of Kobe Steel Group, provides strong support in ensuring a stable and high quality supply of steel as well as developing a strong customer portfolio of established Japanese clientele in the automobile and home appliances sectors. GZCC focuses on serving the re-export OEM home appliance manufacturers in Guangzhou and domestic customers in the Pearl River Delta. The VSC Group plans to further enhance operations and machinery at GZCC, and with Shinsho Corporation, jointly study the viability of setting up another processing line for non-ferrous metals like aluminum and/or stainless steel. Similar to its self-run coil centres, the VSC Group's 14% investment in the **Baosteel Jingchang joint venture** in Nansha, also delivered strong performance. 2004/05 turnover jumped by 33% to over RMB656 million. Annual sales volume reached a new high of over 118,000 metric tonnes. Net profit amounted to approximately RMB10.6 million. Dividend received during the year was about RMB1.3 million, together with dividend declared, based on distributable profit of about RMB1.1 million, generating a total dividend income of about RMB2.4 million to the VSC Group. The Nansha JV has a reputable industry position by offering highly competitive prices and quality service. Continuous operational improvements were driven by the widespread use of balance scorecard approach to set specific measurable targets in inventory turnover days, customer satisfaction index and passing of ISO9001: 2000 audit. The completion of Phase 2 expansion has equipped the JV with a larger factory premises and additional cutting and slitting machines, while phase 3 expansion is underway, with the JV in final talks with the local Planning Bureau for land purchase.

Enclosure Systems Manufacturing

“...focus is to provide customised enclosure systems for the high growth telecommunications industry in southern China...”

ENCLOSURE SYSTEMS MANUFACTURING

The VSC Group strategically invested in the set up of the **VJY enclosure systems manufacturing (VJY)** in Shenzhen three years ago, to further become a comprehensive steel processing services solution provider, and adding to its list of offerings punching, bending, stamping, coating, assembly, technical design and quality control. VJY’s focus is to provide customised enclosure systems for the high growth telecommunications industry in southern China, which is dominated by a few leading domestic telecommunication equipment providers/manufacturers such as Huawei and Zhongxing. In its initial start up period, VJY had to invest in substantial resources to meet the stringent requirements, before qualifying as the approved vendor for these customers who prefer to source from a few reliable vendors. VJY needs to continually improve its production costs and efficiency to remain competitive in winning bidding orders and keep up with changes in the telecommunications industry. To date, VJY has successfully developed its position in the supply chain of enclosure systems and secured its market share with top customers Huawei and Zhongxing. Turnover for 2004/05 continued its increase by 25% to about HK$136 million, as compared to last year’s HK$109 million; more than three times over the HK$40 million sales recorded two years ago. However, segment results fell by 44% from approximately HK$9 million to HK$5 million due to high raw material costs and special provision for aged finished goods and work-in-progress. In the coming year, VJY will apply key account management in servicing core customers who exceed RMB200 million in sales, and improve its technical manufacturing capability and sales forecast to lower inventory costs. Coordination among sales and production teams will be strengthened to secure expected orders from Huawei in respect of the wireless segment, while outsourcing of certain production processes to selective reliable partners will continue to optimise production management and expand capacity. The VSC Group’s strong steel supply chain management, will assist VJY in sourcing from local steel mills to mitigate the impact of high raw material costs.

Plastics Distribution

“Local sales teams in Shenzhen and Guangzhou have penetrated into the local market around the Pearl River Delta...”

PLASTICS DISTRIBUTION

For the year under review, the **plastics division** recorded a 44% increase in turnover to approximately HK$248 million and a 54% growth in segment results to approximately HK$15 million. The soaring crude oil price drove up the price of plastics, resulting in 44% sales growth in sales dollar value, while actual sales volume growth was at 17%. The division continues to promote the engineering plastic resins of a wide range of suppliers including Samsung Total, Samsung Cheil, GE Plastics, Mitsubishi and UMG. The team offers technical assistance to customers’ new products development and coordination with suppliers. Local sales teams in Shenzhen and Guangzhou have penetrated into the local market around the Pearl River Delta, targeting the huge demand for high quality imported resins, particularly in the home appliance, health care and medical products markets.

The new wholly-owned trading company in Shenzhen also facilitates the development of local sales with the planned set up of a bonded warehouse in China to expedite delivery. However, performance of the machinery division has not improved due to strong competition and poor sentiment for its costly high-end Japanese injection moulding machinery. As a result, the VSC Group plans to terminate the relatively small scale machinery division at fiscal year-end, and reallocate manpower resources.

CMG

Construction Materials Group

"...the VSC Group remains optimistic about CMG's long-term development, and will pursue an overall strategy to build a steel distribution network to provide high value-added solutions to target customers across China. Leveraging on the expertise of steel specialists who possess in-depth knowledge of the domestic steel market, CMG has successfully expanded its coverage from Hong Kong to major cities in Mainland China ..."

Dominating a niche part of the market, namely the distribution of selected construction steel and building products to reputable dealers and end users in affluent cities including Shanghai and Shenzhen

CONSTRUCTION MATERIALS GROUP ("CMG")

The VSC Group's CMG business primarily distributes steel and building products to large reputable developers and contractors for construction work in Hong Kong and Mainland China. As mentioned earlier, CMG operations were seriously hampered by the exceptionally poor results of its Hong Kong steel stockholding department and the selective macro-entrenchment measures in China to curb some overheated industries, in particular the steel and real estate sectors. As a result, CMG's turnover slightly dropped by 1% to approximately HK$2,847 million, accounting for approximately 69% (last year – 81%) of the VSC Group's total turnover. CMG's segment results for the first time suffered a HK$21 million loss as compared to the profit of approximately HK$68 million last year. However, the VSC Group remains optimistic about CMG's long-term development, and will pursue an overall strategy to build a steel distribution network to provide high value-added solutions to target customers across China. Leveraging on the expertise of steel specialists who possess in-depth knowledge of the domestic steel market, CMG has successfully expanded its coverage from Hong Kong to major cities in Mainland China, including Shenzhen, Guangzhou, Shanghai, Beijing and Tianjin, to capture booming potential for construction materials.

Steel Distribution

"...already adjusted its operating strategies to have both the suppliers and customers share in the pricing risk..."

STEEL DISTRIBUTION

The VSC Group's CMG operations in steel distribution comprise stockholding business of rebars, structural steel and engineering products in Hong Kong, steel distribution in Mainland China together with its investment in the iSteelAsia Group, and distribution of mainly domestic steel products in eastern China by its 66.7% owned joint venture, Shanghai Bao Shun Chang ("BSC"). Sales revenue from distribution of steel in China was stable from last year, contributing a majority of 61% of the total steel distribution turnover in 2004/05.

The steel stockholding business, notably its rebars business in Hong Kong suffered from an unprecedented adverse operating environment, with its performance hitting an all-time low in over 40-year history of the VSC Group. Turnover of the **Hong Kong steel stockholding department** (which consists of rebars, structural steel, soil nails and couplers) decreased by 9% as compared to last year. The major rebars stockholding business, which traditionally commits to long-term (1 to 3 years) fixed price sales contracts with major developers and contractors for specific projects and construction sites, was hit with sales declining by 6% to about HK$894 million, and a gross loss of about HK$72 million, shrinking from the gross profit of around HK$52 million last year. Other businesses: structural steel and engineering products were not as adversely affected as they do not depend on long-term contracts as much and they contributed HK$23 million gross profit to the Hong Kong steel stockholding department. As a result, the performance of the Hong Kong steel stockholding department suffered a gross loss of HK$49 million for the year.

Average selling prices were dramatically pulled down during this period due to long-term fixed price sales contracts, entered into during 2000-03, which had yet to run their course. Construction activities in Hong Kong also remained stagnant without much apparent improvement from the recently recovered property market. Total tonnage of all kinds of steel delivered by the entire department in 2004/05 fell to over 329,000 metric tonnes, as compared to over 444,000 metric tonnes last year. Sourcing of steel rebars was worsened by the volatility of steel prices, not seen by the industry in the last decade, due to the war in the Middle East.

"... committed to ensuring customer satisfaction through healthy competition, reduced operation cost by supply chain management and improved operation efficiency."

"...the VSC Group will leverage on its financial strength and solid customer and supplier base to restore the Hong Kong steel distribution business back to health."

Consequently, the VSC Group suffered tremendous pressure given its fixed low sales price commitment in Hong Kong against a backdrop of soaring worldwide prices. To maintain its long-term relationships with customers, and to limit the potential exposure in the mismatch between the sales price and purchase cost, the department concluded several unprofitable purchases in covering its open position in the outstanding sales contracts to ensure uninterrupted delivery of steel rebars to customers. This, as the department finally closed the books at year end, resulted in gross loss.

Such unsatisfactory results showed the historically unchallenged vulnerability of the rebars stockholding business model in Hong Kong. As endorsed by customers, the department already adjusted its operating strategies to have both the suppliers and customers share in the pricing risk, and used our best effort not to enter into long-term fixed price sales contracts exceeding two years, with price adjustment for delivery of over one year. A premium will also be charged for special size delivery. The department is committed to ensuring customer satisfaction through healthy competition, reduced operation cost by supply chain management and improved operation efficiency. Most of the outstanding fixed low price sales contracts have also been completed or are expiring this financial year. The management is confident that, barring unforeseen circumstances, the VSC Group will leverage on its financial strength and solid customer and supplier base to restore the Hong Kong steel distribution business back to health.

Currently, the department's contracts-on-hand total about HK$742 million extending to 2006. Major projects including Shatin Heights Tunnel and Approaches, Route 8, Eagle's Nest Tunnel, Fanling Area 36 Phase 1 & 2, Upper Ngau Tau Kok Estate Phase 2 & 3, Cyberport Residential Development Phase RIII & RIVA, Commercial/ Residential Development at Yeung Uk Road, ICAC Headquarters at North Point, Wynn Resorts Macau and Park Hyatt Hotel Macau. Macau's recent economic prosperity is likely to generate steel demand for the department over the next few years, mitigating to an extent, the shrinkage in the Hong Kong market.

“...formed strategic alliance with a newly set up venture, MetalChina, to develop the provision of a vertical chain market linking procurement services to overseas buyers to source China-made metal products for export.”

Inventory turn was closely monitored and minimum profit margins were strictly adhered to as part of the measures to combat the volatile construction steel market. Under these conditions, the development of imported structural steel, mainly H-beams, into Shanghai, inevitably slowed. Turnover arising from such distribution in 2004/05 was about HK$208 million as compared to last year's sales of over HK$330 million. Coupled with other steel products distribution to distributors and end users in southern China, CMG achieved an aggregate turnover of about HK$392 million for steel distribution in Mainland China, a 40% decline from HK$654 million last year. The VSC Group, under the purchase arrangement with the iSteelAsia Group, made steel products sales of approximately HK$399 million. To further realign its financial resources and exercise more control over its supply chain, the VSC Group partially called upon its put option in its investment in the Beijing Shougang Group's manufacturing of colour-coated steel plates or PPGI, and reduced its shareholding from 10% to 5% to repatriate US$2 million. To mitigate vulnerability of the fluctuating steel price, CMG is exploring other value propositions that would demand less capital and yield higher return. During the year, the VSC Group formed a strategic alliance with a newly set up venture, MetalChina, to develop the provision of a vertical chain market linking procurement services to overseas buyers to source China-made metal products for export. Such specialised services not only help develop the VSC Group's domestic sourcing capability but also lower its capital requirements and risks associated with inventory. It further renders cross-selling opportunity of processing activities for the CAMP operations. Under a subscription agreement, the VSC Group could acquire a majority stake in the venture should the business model prove to work well. The 66.7% joint venture company with the Shanghai Baosteel Group, **BSC**, continued to deliver strong performance and yield to the VSC Group. For 2004/05, turnover further increased by 10% to approximately HK$848 million, and net profit contribution before minority interests jumped 88% to about HK$24 million. To further enrich its value propositions to customers, BSC has decided to partner with a major domestic customer, Jiangsu Baixue Electrical Appliances to set up a stamping steel service centre in Changshu, which is close to industrial areas in Suzhou and Wuxi. Total investment is estimated to be about US$1.2 million, and the VSC Group will hold majority shareholding. To begin in 2006, the JV will open up a new geographic reach and capture new demand.

Building Products

“...regained its momentum of growth and further improved its performance...”

BUILDING PRODUCTS

Building products department regained its momentum of growth and further improved its performance with turnover increasing by 13% to about HK$157 million and segment result increased to about HK$9 million in the year, as compared to HK$5 million in last year. The biggest contributor is now the project sales division, which distributes mainly sanitary wares of TOTO, Laufen and Hansgrohe, kitchen cabinets of SieMatic and Rover conglomerate marble. Despite the stagnant residential building contracts during the year, the division successfully extended the TOTO sensor products from hotel and commercial applications to major luxury residential developments. The division continued to enjoy modest sales growth in commercial office, shopping arcade, hotel and service apartments and casino and resort sectors in Macau. The division currently has contracts-on-hand worth around HK$11 million. Major outstanding projects include the supply of bathroom sanitary wares and conglomerate marble for Three Pacific Place Pedestrian Subway, Ting Kau Hotel, various hotels in Macau and Area 31 Tin Ping Shan. To raise the sales volume and profit margin, new products with own brand names will be developed. As stated in last year's annual report, the kitchen cabinets division has been restructured to abandon large long-term, high risks and low return projects. Thus, turnover from the kitchen installation business has continued to decline as the division is now focusing on small but high end individual projects, which yield a much higher profit margin but less demand on human resources. **Leisure Plus**, the retail outlet and showroom, with an area of over 7,000 square feet in Wanchai has successfully built up a superior high-end image for quality sanitary products and kitchen cabinets. Its share of the retail market is enhanced through establishment of a wholesale network. A new business model, Vendor Managed Inventory ("VMI") has been used to operate this network to better coordinate the pricing, inventory, display quality and service level among all dealers. Turnover increased over 91%. The wholly-owned trading company, **Leisure Plus Shanghai**, recorded good progress in its wholesale and project sales of TOTO products in Shanghai. Leisure Plus Shanghai achieved a turnover of approximately HK$59 million, a 91% growth over last year. It also turned around its loss position from last year, with segment results of approximately HK$1 million. The VSC Group has also obtained distribution rights of TOTO in Guangzhou and Shenzhen areas. A new wholly-owned trading company is being set up to handle the retail and project sales in these areas.

OTHER INVESTMENT

The VSC Group maintained as a long-term investment of 18.9% interest in **iSteelAsia Holdings Limited (“iSteelAsia”)**, a company listed in the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (“Stock Exchange”) since April 2000. In 2004/05, **iSteelAsia and its subsidiaries (together the “iSteelAsia Group”)** was adversely affected by the central government’s policy to limit excessive investments in specific overheated industries. Together with a volatile steel price and conservative provisions for diminution in value relating to inventories, receivables, deferred tax assets and deposits in dispute, the iSteelAsia Group’s turnover in 2004/05 decreased 40% to approximately HK$860 million, and a loss attributable to shareholders of approximately HK$10 million has been recorded. However, the VSC Group remains confident the iSteelAsia Group will be restored to profitability. The VSC Group will, as previously agreed, continue to source and supply steel to the iSteelAsia Group to facilitate its expansion of steel trading operations and obtain bulk purchase benefit by aggregating demand of the two groups. iSteelAsia will receive net proceeds of approximately HK$30,200,000 from a series of capital restructuring exercises given shareholders approval. The VSC Group has also agreed to act as the underwriter for the open offer and would subscribe new iSteelAsia shares for the maximum amount of HK$2.5 million.

KEY ELEMENTS OF GROWTH

“The VSC Group considers its staff the most valuable asset.”

(1) Human capital

The VSC Group considers its staff the most valuable asset. Our total solution services can only be delivered by outstanding employees who can meet challenges and accomplish goals. Our transformation from a trading business to multi-located factory operations in China also requires our people to adjust to cultural and mental challenges in a new environment. Our HR system and corporate structure have been modified to accommodate staff from all backgrounds, and mould them into a coherent team. In particular, the HR strategy has focused on localization. Most of the senior executives are local professionals with western education and/or work experience at a multinational corporation. They understand Mainland China’s best practices and also have a modern management mindset. In June 2005, the VSC Group employed 1,106 staff members, a 11%

"...Organisation Development Programme jointly held by Cheung Kong Graduate School of Business and the VSC Group...for over 30 selected middle management..."

decrease over last year. The decrease in number of employees is mainly due to the operational streamlining of VJY to improve its efficiency with fewer workers.

Department	Headcount June 2005	Headcount May 2004
CAMP		
– Coil Centre	314	303
– Enclosure Systems	603	731
– Plastics Distribution	19	21
CMG		
– Steel Distribution	31	44
– Building Products	25	25
– Shanghai Offices	54	59
Corporate Support	60	58
Total:	1,106	1,241

The VSC Group recognises the importance of aligning individual staff interest to the corporate goal. Tailored-made incentive schemes for bonuses and commission with measurable targets in achieving key success are designed with bottom-up approach for respective business units and corporate support functions. The VSC Group also believes in investing in its own people to provide the best human capital for supporting its high growth and improving profitability. The HR department launches many on-the-job training courses plus training subsidy to employees to enhance their knowledge and skills. As mentioned in last year's annual report, an Organisation Development Programme jointly held by Cheung Kong Graduate School of Business, a renowned business school in China, and the VSC Group, was launched during the year for over 30 selected middle management staff and department heads. The Programme consisted of a series of modules covering strategic planning, finance, operations, sales and marketing as well as leadership, with particular emphasis and reference on China businesses. The Programme was very well received by the participants and follow up team projects were carried out to apply their learning to the VSC Group's businesses. The VSC Group also stresses the need to foster good and timely communication with staff. The annual vision day is held to communicate the corporate vision, mission and goals with all staff. Periodic staff forums are organised to collect staff opinion and feedback on company policy. Regular newsletters in electronic format are published to provide staff with report of the latest corporate development and recreational activities. Total staff costs including contribution to retirement benefit schemes incurred during 2004/05 amounted to approximately HK$80 million. During the year under review, no options have been offered and/or granted to participants under the new share option scheme adopted since 12th November 2001.

(2) Finance capital

As the VSC Group continues to evolve to focus on PRC steel processing, the VSC Group has also continue refined its capital structure with the objective of securing the necessary funds at optimal capital cost to finance the cash flow of its business development. In terms of equity, number of issued shares increased from 247 million in 1994 to 369 million in 2005. Shareholders' equity stood at about HK$694 million as at 31st March 2005. Over the past ten years, the VSC Group has received over HK$570 million through different financial exercises. The last share placement was done in November 2003 for 33 million new shares at HK$1.8 per share, bringing net proceeds of about HK$54.7 million to finance the continuous development of the VSC Group's CAMP operations in Mainland China. Another share placement involving placement of 31.2 million existing old shares at HK$1.25 per share to institutional investors was also completed in July 2003. These exercises not only inject the required capital but also improve our shareholders' base with reputable institutional investors and funds which should help to form a sound foundation for further exercise in the future.

In terms of bank borrowing, the VSC Group requires significant short-term banking lines to finance its working capital need for inventory and accounts receivable. The VSC Group has developed excellent relationships with a number of local and international banks in Hong Kong and continues to expand its banking profile. Aggregate banking facilities in short-term trade lines surged from HK$0.8 billion in 1994 to over HK$1.7 billion in 2005, with the number of principal banks increasing from five to fifteen. Such trade lines consist of letter of credit and trust receipt loans. Interest costs are levied on inter-bank borrowing rates plus competitive margins. As the VSC Group establishes more presence in China, the need for RMB financing is expected to become greater. RMB term loans and bill exchange facilities have been obtained from domestic and foreign banks in the amount of RMB223 million. As the VSC Group continues to grow, it will closely adapt its group structure and financing resources to optimise the fit to its cash flow need and cost basis.

CORPORATE GOVERNANCE

The market value of Hong Kong listed companies is positively and significantly correlated with their corporate governance scores. This reinforces the VSC Group's belief and commitment to ensure high standards of corporate governance in the interests of its shareholders. The VSC Group has continued to evolve and reform its corporate practices and structure in response to increasing demand for better corporate governance to enhance shareholders' value. The Listing Rules in Hong Kong have recently been amended with major changes and new rules relating to corporate governance. The VSC Group will comply with all these new mandatory requirements and minimum standards. It will also strive to adopt recommended best practices. Efforts and principles adopted by the VSC Group in promoting its corporate governance are as follows:

(1) The Board and senior management – Currently, the Board consists of two executive directors and five non-executive directors (of whom four are independent). The executive directors are responsible for managing the overall business and formulating and executing corporate strategies. The non-executive directors are all senior business executives who advise the executive directors and management on business strategies and development. The executive directors have regular meetings with the head of CAMP or CMG, general managers of respective business units and key staff of support units to discuss major business plans and review operation and financial performance.

(2) Audit committee and internal control – The audit committee has been set up since December 1998 and consists of five non-executive directors (of whom four, including the chairman of the audit committee, are independent). As required by the amendment of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), the VSC Group has appointed an independent non-executive director, Mr. Kenny King Ching Tam, who has the required appropriate professional accounting qualifications and financial management expertise as one of the members of the audit committee. The audit committee meets formally twice a year to review and discuss the various internal control and audit issues as reported by the external auditors and internal audit team. It also reviews the interim and final financials. To further improve internal control environment and accounting system, internal audit department has been established.

(3) Code of best practice – The Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules adopted before 1st January 2005 throughout the accounting year covered by the annual report, except that the non-executive directors are not appointed for specific terms. However, the non-executive directors are subject to retirement by rotation and re-election at annual general meeting in accordance with the Company's Bye-laws. The Code of Best Practice has now been renamed and revised as the Code on Corporate Governance Practices by the Stock Exchange as effective after 1st January 2005. The new Code contains two tiers of recommended board practices-minimum standards and recommended best practices. As stated before, the VSC Group will ensure full compliance on the minimum requirements and endeavour to adopt the recommended best practices.

(4) Directors' securities transactions – VSC adopted on 31st March 2004 "Appendix 10-Model Code for Securities Transactions by Directors of Listed Issuers" as the required standard against which Directors must measure their conduct regarding transactions in securities of the Company according to Appendix 10.1 of the Listing Rules.

(5) Investor relations and communication – The VSC Group is committed to promoting transparency and maintaining effective communication with investors, analysts and the press. The management periodically meets with existing and potential investors to make corporate presentations. Regular plant visits to our various manufacturing facilities are arranged for various interested fund managers, research analysts and bankers. Our user-friendly website provides investors with the latest news, corporate and financial information including announcements and interim and annual reports. The VSC Group continues to maintain a high level of transparency in information disclosures. The VSC Group is very pleased to report that its 2004 annual report has won, among five other major listed companies, an Honourable Mentions Award in the HKMA Best Annual Reports Awards this year.