Financial Review

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 2004 and 2005 are referred to herein as FY2004 and FY2005, respectively. Certain comparative figures in FY2004 have been reclassified to conform with the presentation in FY2005.)

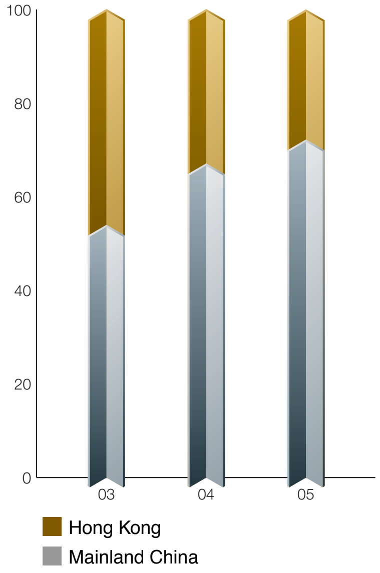
(1) CONSOLIDATED PROFIT AND LOSS ACCOUNTS

Ref		**FY2005** **HK$'000**	FY2004 HK$'000	% Change
1.1	Turnover	**4,138,621**	3,549,110	+17%
	Cost of sales	**(3,935,673)**	(3,314,790)	+19%
1.1	Gross profit	**202,948**	234,320	–13%
	Other revenue			
	– Interest income	**5,059**	6,310	–20%
	– Dividend income from an unlisted long-term investment	**2,296**	374	+514%
	– Guaranteed return from a joint venture	**2,033**	4,344	–53%
1.2	Selling and distribution expenses	**(26,939)**	(21,352)	+26%
1.2	General and administrative expenses	**(145,259)**	(119,498)	+22%
1.3	Other income/expense, net	**26,183**	5,294	+395%
	Operating profit	**66,321**	109,792	–40%
1.4	Finance costs	**(17,927)**	(13,337)	+34%
	Profit before taxation and minority interests	**48,394**	96,455	–50%
1.5	Taxation	**4,320**	(11,061)	N/A
	Minority interests	**(11,637)**	(4,331)	+169%
1.6	Profit attributable to shareholders	**41,077**	81,063	–49%
1.7	Dividends per share	**HK 2.2 cents**	HK 5.9 cents	–63%
1.8	Earnings per share			
	– Basic	**HK 11.2 cents**	HK 24.6 cents	–54%
	– Diluted	**HK 11.1 cents**	HK 23.6 cents	–53%

TURNOVER BY GEOGRAPHICAL SEGMENT

for the years ended 31st March

%



CONSOLIDATED RESULTS

1.1 Turnover and gross profit

Turnover increased by 17% over last year. The increase in turnover was mainly derived from the CAMP operations, which recorded an encouraging growth of 91%, while the turnover of the CMG operations remained at similar level as compared to FY2004. Overall gross margin, however, decreased by 26%. The Hong Kong steel rebars stockholding department of CMG was significantly affected by some long-term steel sales contracts committed in previous years at a price lower than prevailing market price, resulting in an adverse hit to the profitability.

1.2 Operating expenses

Selling and distribution expenses (“S&D expenses”) increased by 26% or approximately HK$6 million. The increase was mainly attributable to the increase in transportation expenses as a result of increase in sales volume. General and administrative expenses (“G&A expenses”) also increased by 22%. The newly acquired Guangzhou Coil Centre in March 2004 accounted for approximately HK$9 million increase in the expenses. Other major reasons for the increase included the increased staff costs due to the continuous expansion in businesses and enhanced incentive schemes for sales motivation, as well as the operating costs for the expanding headquarters in Shanghai, PRC.

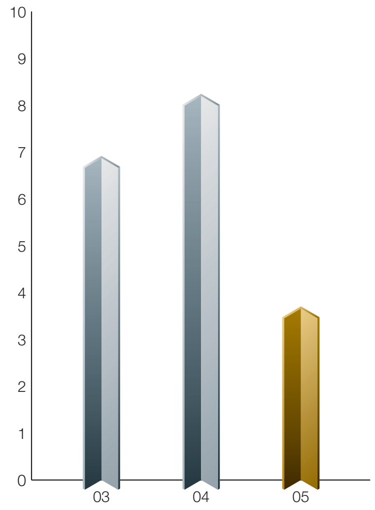
1.3 Other income/expense, net

Other income/expense included (i) surplus on revaluation and gain on disposal of investment properties of about HK$26 million; (ii) gain on disposal of a director quarter of about HK$10 million; and (iii) impairment loss on a long-term investment of about HK$10 million.

INTEREST COVER

for the years ended 31st March

Multiple



1.4 Finance costs

The increase was the result of increase in trade finance and term loans for the VSC Group's expanded businesses. Also, the VSC Group had fully drawn down the HK$250 million three-year syndication loan and increased its borrowings in RMB loans for its investments and operations in China. Interest charges of these additional bank financings were levied at higher rates than the normal short-term trade line trust receipts loans in Hong Kong. Interest cover (operating profit divided by finance costs) reduced to about 3.7 (FY2004: 8.2) as a consequence of the increase in finance costs and decrease in operating profit. The VSC Group will closely monitor the trend of interest rate and will deploy, if necessary, appropriate financial instruments to hedge against any significant fluctuation.

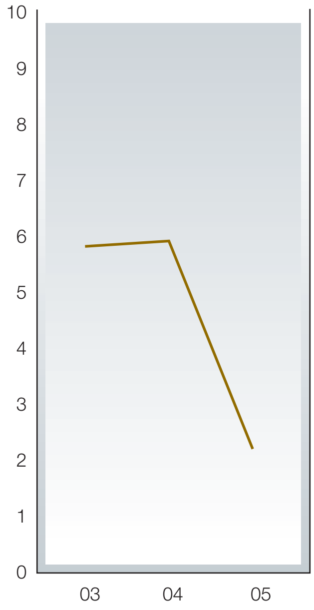
1.5 Taxation

Taxation included current taxation of about HK$9 million (FY2004: HK$12 million) offset by deferred taxation credit of about HK$13 million (FY2004: HK$1 million). Deferred taxation credit for FY2005 was mainly resulted from the tax loss of our Hong Kong steel stockholding department.

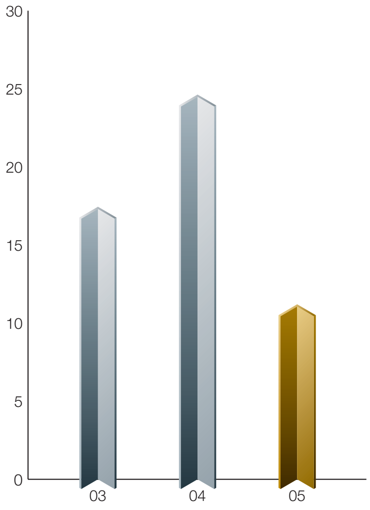
1.6 Profit attributable to shareholders

Profit attributable to shareholders decreased 49% to approximately HK$41 million. Net profit margin (profit attributable to shareholders divided by turnover) reduced from 2.3% in FY2004 to 1.0% in FY2005. Return on equity (profit attributable to shareholders divided by shareholders' equity) reduced to 5.9% (FY2004: 12.3%) and return to total assets (profit attributable to shareholders divided by total assets) also reduced to 1.8% (FY2004: 4.0%). All these three ratios decreased as a result of decrease in profit attributable to shareholders.

CASH DIVIDEND PER SHARE
for the years ended 31st March
HK cents



BASIC EARNINGS PER SHARE
for the years ended 31st March
HK cents



1.7 Dividend

Dividend of HK2.2 cents per share was declared for the year representing dividend payout (total dividends divided by profit attributable to shareholders X 100%) of around 20% (FY2004: 26%). It is the VSC Group's policy to try to pay dividends to reward its shareholders. With its stated strategy for further expansion, especially in CAMP, the management will balance the goal to achieve an attractive yield return for its shareholders while through reinvestments of capital to maximise the VSC Group's shareholders' value in the medium to longer term.

1.8 Earnings per share

Basic earnings per share decreased by 54% to HK11.2 cents mainly due to decrease in profit attributable to shareholders. Diluted earnings per share decreased by a similar level of 53% to HK11.1 cents. As discussed before, the Group will focus its resources to continue to develop its CAMP operation which generates a much more higher margin return to the Group. Unlike the Group's traditional CMG operation which are mainly shorten trade financings, the CAMP operations require fixed assets and a longer term financial commitment. As such, the management balancing the investment need of the continued growth of CAMP and providing a dividend return to its shareholders, has recommended a lower dividend payout ratio to approximately 20% of earning.

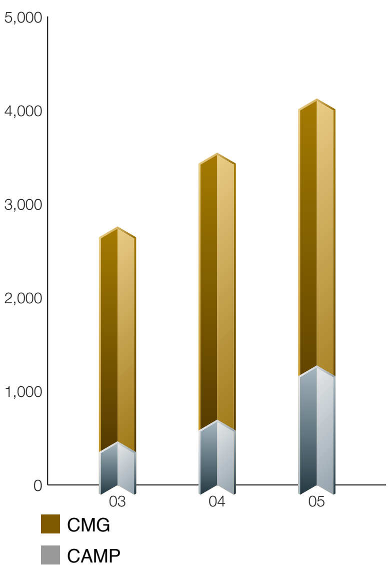
Segment results

	Turnover			**Segment results**		
	FY2005 HK$'000	FY2004 HK$'000	Change %	**FY2005 HK$'000**	FY2004 HK$'000	Change %
CAMP						
– Coil centre	**905,482**	392,513	+131%	**84,179**	51,544	+63%
– Enclosure systems	**135,811**	109,463	+24%	**5,017**	8,848	–43%
– Plastics	**248,188**	172,265	+44%	**14,727**	9,542	+54%
CAMP total	**1,289,481**	674,241	+91%	**103,923**	69,934	+49%
CMG						
– Steel distribution	**2,690,626**	2,734,287	–2%	**(30,024)**	62,994	-148%
– Building products	**156,500**	138,737	+13%	**9,189**	4,704	+95%
CMG total	**2,847,126**	2,873,024	–1%	**(20,835)**	67,698	-131%
Other operations	**2,014**	1,845	+9%	**1,086**	(644)	+268%
	4,138,621	3,549,110	+17%	**84,174**	136,988	–39%

TURNOVER BY BUSINESS SEGMENT

for the years ended 31st March

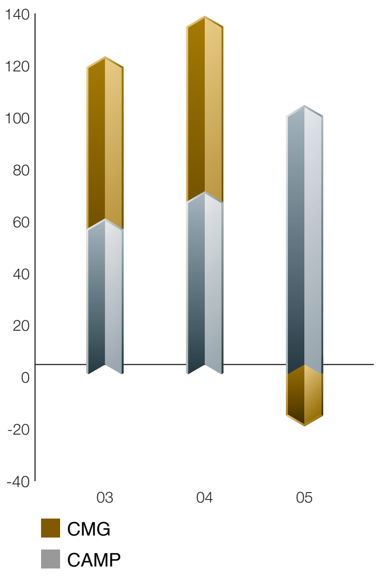
HK$ million



SEGMENT RESULTS BY BUSINESS SEGMENT

for the years ended 31st March

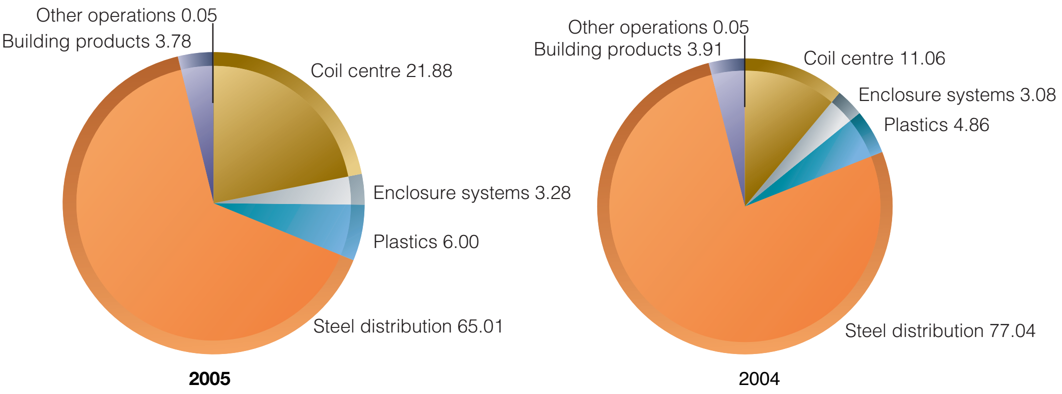
HK$ million



TURNOVER BY PRODUCT/OPERATION

for the years ended 31st March

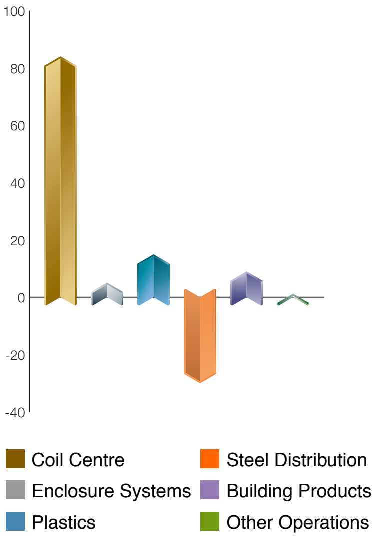
%



SEGMENT RESULTS BY PRODUCT/OPERATION

for the year ended 31st March 2005

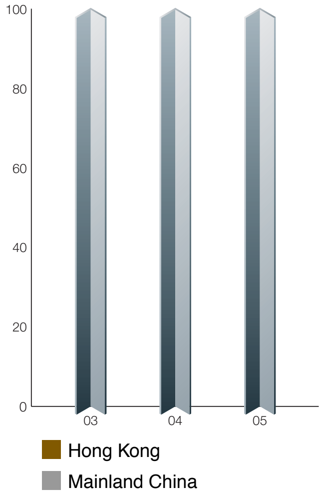
HK$ million



TURNOVER OF CAMP BY GEOGRAPHICAL SEGMENT

for the years ended 31st March

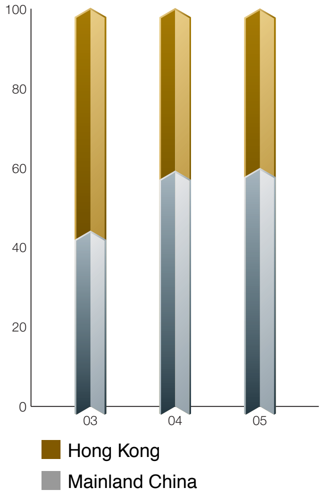
%



TURNOVER OF CMG BY GEOGRAPHICAL SEGMENT

for the years ended 31st March

%



a) China Advanced Materials Processing ("CAMP")

CAMP operations became more and more significant within the VSC Group. Turnover went up 91% to approximately HK$1,289 million representing 31% of total turnover of the VSC Group. Major profit contribution was still derived from the coil centre operations. VJY and plastics department both have positive contribution and CAMP finished FY2005 with 49% increase in segment result to approximately HK$104 million.

All three coil centres had done remarkably well in FY2005 despite high steel price for imported quality flat steel products which eroded the profit margin. Turnover and segment result of DGCC both recorded a double-digit growth of 42% and 12% respectively. Gross margin dropped from 18% in FY2004 to 14% in FY2005. S&D expenses increased by 21% due to increase in transportation expense as a result of increase in sales volume. G&A expenses were kept at similar level as last year. TJCC was in its second year of operation and already making about HK$9 million contribution toward the segment result. Turnover reached about HK$156 million, more than four times the turnover of last year. Both S&D expenses and G&A expenses increased by 41% and 59% respectively because of full year operation of TJCC in FY2005 as compared to only nine months operation in FY2004. GZCC was acquired in late March 2004. Turnover for FY2005 was about HK$249 million while segment result was about HK$18 million. Although the three coil centres had slightly different operation model, synergy had been built up among the three in terms of procurement, inventory management, marketing, customer relationship management, and other areas. The three coil centres will strengthen the synergy to improve operating efficiency, thus profitability.

Turnover of VJY increased from HK$109 million in FY2004 to approximately HK$136 million in FY2005. However, gross margin dropped from 21% to 15% due to increase in material costs as well as specific provision made for aged finished goods and work-in-progress. S&D expenses dropped 7% while G&A expenses increased slightly by 3%. As a result of the tightened margin, segment result dropped from HK$9 million to HK$5 million.

Plastics department finished the year with 44% increase in turnover but sales volume only grew by 17%. Price of plastic resins increased significantly as a result of soaring crude oil price. However, plastics department managed to pass on the price increase to its customer and maintained its gross margin at the same level as last year. S&D expenses increased by 33% as a result of increase in storage for increase inventory level and increase in transportation expenses for increase sales volume. G&A expenses increased by 26% because of the setup of new office in Shenzhen. Segment result increased by 54% to about HK$15 million.

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

CMG faced lots of challenge in both Hong Kong and Mainland China market. Although the building products department managed to grow satisfactorily, CMG was seriously hampered by the performance of steel distribution department. Turnover dropped slightly by 1% and CMG suffered loss for the first time in its history. Segment loss of about HK$21 million was recorded for FY2005 as compared to profit of about HK$68 million for FY2004.

FY2005 was an extremely hard year for steel distribution department. The Hong Kong steel market had been shrinking for the past few years. Sales quantity of Hong Kong steel stockholding department dropped from about 444,000 metric tones in FY2004 to about 329,000 metric tones in FY2005. Increasing steel price coupled with some unprofitable long-term steel sales contracts caused the department to finish the year with a gross loss of about HK$49 million. Although there are still some unprofitable contracts outstanding, average price of our contracts-on-hand as at 30th June 2005 is above our average cost of inventory and the department should return to normal profit in the coming year.

Steel distribution in Mainland China faced another challenge. The PRC central government continued its macro-entrenchment measures to cool down the steel industry and real estate market. Construction projects were delayed and demand for construction steel was weak. Turnover for steel distribution in Mainland China dropped 40% and decrease from HK$654 million last year to HK$392 million this year. However, sales to iSteelAsia Group under the ongoing steel supply agreement increased from about HK$156 million to about HK$399 million. Turnover of SHBSC also increased by 10% to approximately HK$848 million. Overall S&D expenses of steel distribution department increased by 68% due to the increase storage expense for the increase inventory level. G&A expenses increase only mildly by 8% and segment result loss of about HK$30 million was recorded for the year as compared to profit of about HK$63 million for FY2004.

For FY2005, turnover of the building products department increased 13% to approximately HK$157 million. Segment result also increased from approximately HK$5 million to approximately HK$9 million. As all sizeable kitchen installation projects were practically completed, turnover arising from these projects amounted to only HK$4 million. Turnover growth came from project sales business and retail business. Our project sales team has successfully promoted the TOTO sanitary ware to the residential sector. The blooming hotel industry as well as the new casino and resort in Macau boosted demand in the hotel and commercial sector. As a result, turnover of the project sales business increased 24%. Leisure Plus, the retail outlet and showroom, had successfully aligned with 12 dealers to form a network of outlets. Promotion and advertisement were launched regularly to increase brand awareness. Turnover of this business increased 91% to about HK$29 million. Leisure Plus Shanghai, our counterpart in Shanghai, also done well in FY2005. Turnover increased 91% to about HK$59 million and started to contribute profit towards the department. In January 2005, the department also obtained distribution right of TOTO sanitary wares in Shenzhen and Guangzhou. A new company was being set up to handle the business in these areas.

(2) CONSOLIDATED BALANCE SHEETS

		As at 31st March				
		2005		2004		% Change
Ref		HK$'000	HK$'000	HK$'000	HK$'000	
2.1	Fixed assets		126,015		159,366	–21%
2.2	Investment properties		71,100		36,448	+95%
	Investment in associates		2		2	0%
2.3	Long-term investments		34,101		60,012	–43%
	Goodwill		8,026		8,290	–3%
2.4	Deferred tax assets		13,797		447	+2987%
	Current assets:		2,019,703		1,756,709	+15%
2.5	Inventories	895,846		695,941		+29%
	Due from customers on installation contract work	14,616		11,450		+28%
2.6	Prepayments, deposits and other receivables	161,820		88,231		+83%
2.7	Accounts and bills receivable	736,758		836,357		–12%
	Loans receivable	6,491		6,891		–6%
	Pledged bank deposits	12,186		8,374		+46%
3.1	Cash and other bank deposits	191,986		109,465		+75%
	Current liabilities:		(1,376,754)		(1,239,224)	+11%
3.1	Short-term borrowings	(910,903)		(798,610)		+14%
	Accounts and bills payable	(364,938)		(350,629)		+4%
	Due to customers on installation contract work	(942)		(157)		+500%
	Receipts in advance	(31,940)		(34,168)		–7%
	Accrued liabilities and other payables	(55,394)		(46,157)		+20%
	Taxation payable	(12,637)		(9,503)		+33%
3.1	Long-term bank loan, non-current portion		(166,667)		(97,222)	+71%
2.3	Deferred tax liabilities		(369)		(104)	+255%
	Net assets		728,954		684,724	+6%
2.8	Capital and reserves:					
	Share capital		36,861		36,778	0%
	Reserves		449,842		444,953	+1%
	Retained profit		198,765		168,529	+18%
	Proposed dividends		8,109		10,298	–21%
3.1	Shareholders' equity		693,577		660,558	+5%
	Minority interests		35,377		24,166	+46%
			728,954		684,724	+6%

2.1 Fixed assets

Total fixed assets additions during FY2005 amounted to approximately HK$30 million which included mainly acquisition of staff quarter and equipment. The increase was offset by (i) annual depreciation charge of approximately HK$22 million; (ii) transfer of a piece of land with net book value of approximately HK$15 million to investment properties; and (iii) disposal of fixed assets, mainly a director quarter, with net book value of approximately HK$26 million. As a result, fixed assets decreased by approximately HK$33 million.

2.2 Investment properties

Investment properties increased by approximately HK$35 million. Two investment properties of approximately HK$8 million were disposed during FY2005. There was no new acquisition but a piece of land with net book value of approximately HK$15 million was transferred from fixed assets to investment properties. All investment properties were valued by independent surveyors on 31st March 2005. The open market value of our investment properties increased by approximately HK$28 million because of the recovery of the Hong Kong economy and good market sentiment. Out of this HK$28 million, HK$26 million was recorded as surplus on revaluation in the profit and loss account which represented write back of previous deficit on revaluation charged to profit and loss account. The remaining HK$2 million represented revaluation above the original cost and was recorded as investment properties revaluation reserve.

2.3 Long-term investments

Long-term investments decreased by approximately HK$26 million. In FY2005, the VSC Group decided to partially exercise its put option in its investment in the joint venture with Beijing Shougang Group and reduced the investment by approximately HK$15 million. The investments in iSteelAsia had been restated from approximately HK$22 million to around HK$11 million with reference to market share price at year end. The decrease of about HK$11 million was transferred to the asset revaluation reserve.

2.4 Deferred taxation

Deferred taxation arises when there are temporary differences between the tax bases of assets and liabilities and their carrying amounts in the accounts. Deferred tax assets in FY2005 were mainly resulted from the tax loss of our Hong Kong steel stockholding department.

2.5 Inventories

Inventories increased 29% to about HK$896 million from last year level of about HK$696 million. The increase was the result of expansion of scale of existing operations as well as continuous increase in steel price throughout FY2005. By business segment, inventories of CAMP and CMG increased by approximately HK$128 million and HK$72 million respectively. For CAMP, the majority of increase of about HK$122 million arose from coil centre operations. For CMG, major addition came from the PRC steel distribution which extended its presence to Guangzhou, Tianjin, and Beijing. Hong Kong steel stockholding department, on the other hand, was facing a declining market and cautiously reduced the inventory level by about HK$52 million. Overall inventory turnover (average inventories divided by cost of sales X 365 days) increased to about 74 days (FY2004: 59 days).

2.6 Prepayments, deposits and other receivables

Prepayments, deposits and other receivables increased by about HK$74 million. In particular, advances to suppliers in PRC increased by about HK$86 million. It is a common practice in PRC to pay steel suppliers in advance for domestic purchases. As the need for domestic steel increased substantially for both CAMP and CMG, advances to suppliers increased substantially from last year.

2.7 Accounts and bills receivable

Accounts and bills receivables ("AR"), net of provision for doubtful debts, decreased by 12% or approximately HK$100 million. AR of CAMP, with its expanding operations, increased by about HK$99 million while AR of CMG decreased by about HK$199 million. Overall accounts receivable turnover (average AR divided by turnover x 365 days) decreased to around 69 days (FY2004: 77 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 2005 HK$ million	As at 31st March 2004 HK$ million
0 to 60 days	**448.2**	489.8
61 to 120 days	**171.0**	120.4
121 to 180 days	**83.2**	41.9
181 to 365 days	**20.1**	135.3
Over 365 days	**27.7**	61.7
	750.2	849.1
Less: Provision for bad and doubtful receivables	**(13.5)**	(12.8)
	736.7	836.3

The substantial improvement of aged AR in both bands of 181 days to 365 days and over 365 days were related to the AR from the iSteelAsia Group of which the outstanding balance reduced from about HK$206 million to HK$119 million.

2.8 Capital and reserves

Increase in capital and reserves of about HK$33 million was mainly attributable to FY2005 profit of approximately HK$41 million and surplus on revaluation of investment properties of approximately HK$2 million; offset by approximately HK$10 million dividend paid during FY2005.

(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 been increased from approximately HK$109 million to HK$192 million as at 31st March 2005. With the upwardly driven steel price and tremendous growth in business, inventories increased by approximately HK$200 million. The sources of financing to satisfy the cash flow were mainly from bank loans and trust receipt bank loans. Net cash inflow generated from financing activities was approximately HK$172 million.

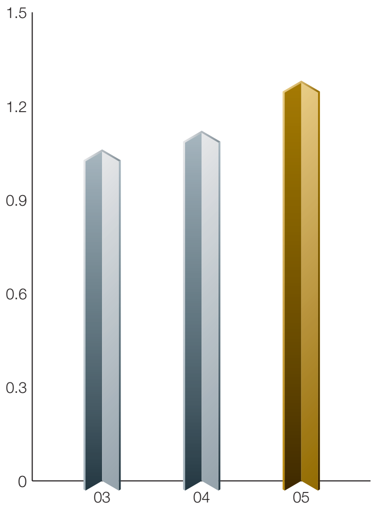
The VSC Group's total shareholders' funds increased 5% to approximately HK$694 million at 31st March 2005 as compared to approximately HK$661 million at the end of last year.

At 31st March 2005, the VSC Group's cash and other bank deposits totaled approximately HK$192 million (2004: HK$109 million) of which about 19.7% were denominated in HK dollar, 12.9% in US dollar, 53.6% in Renminbi(RMB) 12.7% in Pound Sterling and 1.1% in other currencies.

At 31st March 2005, the VSC Group's total borrowings amounted to approximately HK$1,078 million of which 100% were interest-bearing borrowings (2004: HK$851 million). Net interest-bearing borrowings, after deducting cash and bank deposits of about HK$192 million, amounted to approximately HK$886 million (2004: HK$742 million). The increase in borrowings was attributable to (i) expansion in business scale in both CAMP and CMG operations; and (ii) substantial increase in steel price.

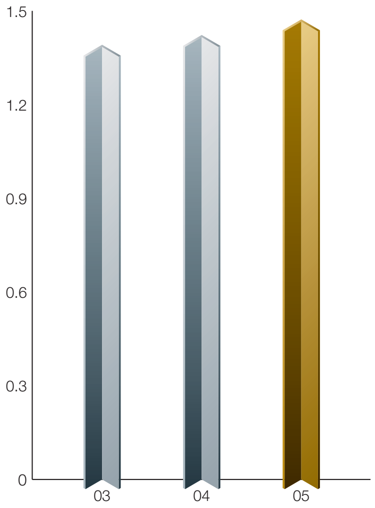
GEARING RATIO

as at 31st March
Multiple



CURRENT RATIO

as at 31st March
Multiple



Net gearing ratio at 31st March 2005, calculated on the basis of net interest-bearing borrowings to shareholders' funds increased from 112% to 128% and the current ratio was slightly improved from 1.42 times to 1.47 times as compared to 31st March 2004. During the Year, the VSC Group continued to maintain most of its borrowings on an unsecured basis, with unsecured debt accounting for approximately 96% of total borrowings as at 31st March 2005. The VSC Group is comfortable to maintain these financial ratios at current level, after taking due consideration of its business nature and risk assessments on overall exposure against industry norm. The VSC Group's business operations were generally financed by cash generated from its business activities and bank facilities provided by its banks. The VSC Group is also negotiating with banks in Hong Kong and Mainland China for additional financing to support its business development. As at 31st March 2005, letter of credit and trust receipts loans facilities available were around HK$1.7 billion and HK$1.3 billion respectively. Bank loan and trade facilities of approximately RMB223 million were obtained to mitigate its exposure on its Mainland China operations. The VSC Group will continue to obtain financing on an unsecured basis whenever possible. The VSC Group will also continue its policy of maintaining gearing ratio at this higher level to cope with our business development in CAMP and PRC.

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

	31st March 2005 HK$ million	31st March 2004 HK$ million
Repayable:		
Within one year	**911**	754
After one year but within two years	**42**	55
After two year but within three years	**125**	42
Total interest-bearing borrowings	**1,078**	851
Cash and bank deposits	**192**	109
Net interest-bearing debts	**886**	742

As at 31st March 2005, the VSC Group was in a net cash position and had cash on hand of HK$0.2 billion. At present, having ample cash and taking into account unutilized bank facilities of about HK$0.2 billion, we have about HK$0.4 billion financial resources available. The VSC Group is hence financially sound and has sufficient financial resources to satisfy its capital commitments and ongoing working capital requirements for future expansion.

3.2 Treasury policies

All of the VSC Group's financing and treasury activities were centrally managed and controlled at the corporate level. The VSC Group's overall treasury and funding policies focused on managing financial risks, including interest rate and foreign exchange risks, and on cost efficient funding of the VSC Group and its group companies. The VSC Group had always adhered to prudent financial management principles.

The VSC Group's businesses were primarily transacted in Hong Kong dollar, US dollar, RMB and Euro dollar. As exchange rate between HK dollars and the US dollars is fixed, together with the minimal fluctuation in exchange rate between HK dollars and RMB, The VSC Group believes its exposure to exchange rate risk is not material. The VSC Group will continue to match RMB payments with RMB receipts to minimise exchange exposure. Transaction values involving Euro dollar were relatively insignificant.

As at 31st March 2005, about 82.8% of the VSC Group's interest-bearing borrowings were denominated in HK dollar, 11.4% in RMB, 5.7% in US dollar, and 0.1% in other currencies. Forward foreign exchange contracts were entered into when suitable opportunities arise and when considered appropriate, to hedge against major non-HK dollar currency exposures. As at 31st March 2005, the VSC Group had total outstanding currency swaps, to hedge principal repayment of future US dollars debts under letter of credit and Euro trust receipt loans, in the amount of approximately HK$535 million.

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

3.3 Contingent liabilities

As at 31st March 2005, the VSC Group had outstanding performance bonds for its kitchen cabinet installation and sanitary wares supply projects amounting to approximately HK$6 million (2004: HK$16 million) and a guarantee for a bank loan granted to Baosteel Jingchang amounting to approximately HK$2 million was expired in January 2005 (2004: HK$2 million).

3.4 Charges on assets

As at 31st March 2005, the VSC Group had certain charges on assets which included (i) bank deposits of approximately HK$9 million pledged for RMB bank facilities; (ii) inventories of approximately HK$34 million pledged for a RMB bank loan; (iii) land, building and equipments 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.