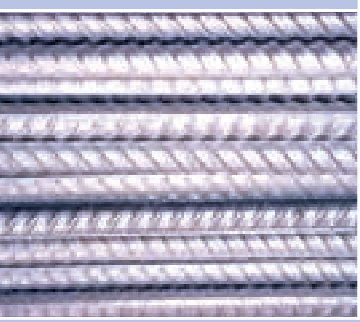
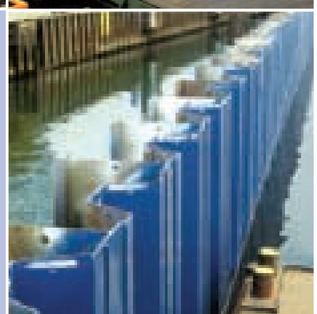
CMG
Construction Materials Group



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To build an effective distribution network to provide products including steel and building products, as well as high value-added solution to large reputable developers and contractors in affluent cities across China.

CONSTRUCTION MATERIALS GROUP ("CMG")

It is VSC's overall strategy to build a steel distribution network to provide products as well as high value-added solutions to target customers across China. The businesses of CMG operations include distribution of steel and building products primarily to large reputable developers and contractors for construction work in Hong Kong and other major cities in Mainland China (including Shenzhen, Guangzhou, Shanghai, Wuxi, Tianjin, Chongqing and Beijing). Turnover of CMG for the year increased by 8% to approximately HK$3,071 million and the overall segment profit for the year was HK$74 million as compared to a loss of HK$22 million last year. The good result was mainly from the superb performance of the Hong Kong Steel Distribution. In financial year 2005/06, CMG accounted for approximately 67% of the Group's total turnover as compared with last year of 69%.

Steel Distribution

"Sales revenue from distribution of steel in Hong Kong contributed 40% of the total CMG steel distribution revenue for the year. In the year under review, the Department made an segment profit of HK$95 million as compared to a loss of HK$66 million in last year."

Steel Distribution

The CMG operations in steel distribution comprise of stockholding business of rebars, structural steel and engineering products in Hong Kong; steel distribution in Mainland China as well as investment in the **North Asia Strategic Holdings Limited ("NAS")**, formerly iSteelAsia Holdings Limited. VSC also owned 66.7% joint venture, Shanghai Bao Shun Chang ("BSC") to cover the distribution of the domestic steel products in Eastern China.

Hong Kong Steel Distribution

The shortfall last year gave the Hong Kong Steel Distribution Department a valuable lesson. To capitalize from the lesson, the Department had implemented a series of corrective strategies and actions to avoid entering into fixed price sales contracts exceeding two years and to manage customers for sharing the pricing risks. To reduce operating cost and improve efficiency, the Department had implemented direct pier-to-site delivery, controlled the lead time on goods ordering and improved accuracy of demand forecast. The corrective strategies and cost measures were very successful and the Department achieved an encouraging operating result in financial year 2005/06. Despite overall tonnage delivered by the

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Department in financial year 2005/06 remained around 326,000 metric tons, approximately the same as last year, revenue increased 17% to approximately HK$1,232 million. Sales revenue from distribution of steel in Hong Kong contributed 40% of the total CMG steel distribution revenue for the year. In the year under review, the Department made an segment profit of HK$95 million as compared to a loss of HK$66 million last year. Rebars inventory were reduced by over 50%, logistics costs comprised of godown operation costs and inventory handling costs, as well as inventory carrying costs had also been reduced. The good news is that all the low price sales contracts that caused the loss in the previous year had been fulfilled and expired in this financial year.

After the Chinese New Year, steel price is becoming more stable, although construction activities in Hong Kong remains stagnant without much apparent improvement from the recovering property market, the Department continues to capture good profit margin as a result of implementing our corrective business and operational strategies. Currently the department's contracts-on-hand total about HK$600 million extending to year 2007. Major projects worth highlighting are KCRC Kowloon Southern Links, Residential Development of Kwun Lung Lau Phase 1, Cyberport Residential Development at Telegraph Bay for Phase RV, Upper Ngau Tau Kok Estate Phase 2 & 3, Shatin New Town Stage II Road Works, Foundation Works at Hoi Ting Road, Kwai Chung Flatted Factory, Redevelopment of Un Chau Street Estate Phases 2 & 4, Fanling Area 36 Phase 2, Victoria Shanghai, Academy at Shum Wan Road and Route 8 Lai Chi Kok Viaduct. The good and stable operating performance of this Department is expected to continue in the coming year.

China Steel Distribution

In the year under review, CMG China distribution business continued to operate in a difficult environment. On one hand, the PRC central government continues her macro-economic management policies to limit excessive investments in several overheated industries including steel and automobile as well as the real estate sector. On the other hand, the over supply of steel had driven down the steel price significantly and continuously. Turnover for the year achieved HK$1,685 million, increased by 3% from last year, however, the value of inventory carried by the Department had deteriorated significantly, as a result the Department suffered a segment loss of HK$22 million, compared with a profit of HK$35 million last year. In financial year 2005/06, the VSC Group made steel products sales of approximately HK$220 million under the purchase arrangement with NAS. The 66.7% joint venture company, BSC, also suffered from the market and pricing deterioration. In financial year 2005/06, despite turnover increasing by 13.7% to approximately HK$964 million, net profit contribution before minority interests only reached about HK$6.7 million as compared with HK$24 million last year. During the year, our strategic venture alliance MetalChina continued to build their structure and team and provide a virtual chain market linking procurement services to overseas buyers to source China-made metal products for export. The strategic intent of such specialised services is to develop the VSC Group's domestic sourcing capability and to lower its capital requirements and risks associated with inventory. It further renders cross-selling opportunity of processing activities for the CAMP operations. In financial year 2005/06, CMG China management had put substantial efforts in resources re-alignment and they had also imposed strict control over spending, resulting in elimination of some unnecessary administrative expenses and selling expenses.

Building Products

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Building Products

In financial year 2005/06, the turnover of Building Products Department slightly dropped by 1% to about HK$154 million as compared with HK$156 million last year. Segment profit decreased to about HK$0.9 million as compared to HK$8.9 million last year mainly because of the write off of some dead stock and receivable in a kitchen cabinet installation project which was completed in year 2004. The biggest contributor of Building Products is the project sales division which distributes mainly sanitary wares of TOTO, Laufen and Hansgrohe, and Rover conglomerate marble. The Department continued to maintain steady sales growth in commercial office, shopping arcade, hotel and service apartments in Hong Kong and casino and resort sectors in Macau. The strategy of the Department is to continue diversifying and developing distribution network in Macau, Shanghai, Shenzhen and Guangzhou through project sales, channel sales and wholesales. The Department currently has contracts-on-hand worth around HK$5 million. Major outstanding projects include the supply bathroom sanitary wares

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and tiles for Skyplaza Building at Hong Kong International Airport, Alternative works at Ocean Centre, Chi Lin Care & Attention Home, Mandarin Oriental Hong Kong, Ting Kau Hotel, East Point City at Tseung Kwan O, Renovation works at Hopewell Centre, Renovation works at Hong Kong Convention and Exhibition Centre, Grand Waterfront, 15 Ho Man Tin Hill Road and hotel projects in Macau. **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. The performance of Leisure Plus was encouraging and it contributed sales revenue of HK$37 million in financial year 2005/06. A new business model, Vendor-Managed Inventory (VMI) has been used to operate this network to better coordinate the pricing, inventory, display quality and services level among all dealers. Our wholly owned trading company **Leisure Plus Shanghai** also had good result for the year and they achieved a turnover of approximately HK$64 million, a 7% growth over last year. The VSC Group has also obtained distribution rights of TOTO in Guangzhou and Shenzhen areas. The management of Building Products anticipates good progress of distributing TOTO products in its wholesale and project sales divisions in Shenzhen and Guangzhou areas in the coming year.

OTHER INVESTMENT

The VSC Group maintained an investment with direct holding of equity shares in NAS, a company listed in the Growth Enterprise Market of the Stock Exchange since April 2000. In July 2005, NAS made an open offer to all its shareholders on the basis of one new share for holder of one share which VSC, through its wholly-owned subsidiary, fully subscribed for the shares to which it is entitled under that offer. NAS alloted and issued additional shares to new investors of approximate two times of its issued share capital, and as a result, our shareholding was diluted from 18.9% last year to 6.61% this year. In financial year 2005/06, NAS and its subsidiaries (together the "NAS Group") continued to operate in a difficult environment, turnover and margin decreased due to the lasting effect of the PRC central government's continuous macro-economic management policies to limit excessive investments in several overheated industries. Turnover of NAS in financial year 2005/06 decreased 58% to approximately HK$355 million, and a loss attributable to equity holders of approximately HK$12 million was recorded. The VSC Group has recognised an impairment loss of HK$14 million by transferring the deficit in investment revaluation reserve to the income statement for the year ended 31st March 2006.