Our
Network

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 2005 and 2006 are referred to herein as FY2005 and FY2006, respectively. Certain comparative figures in FY2005 have been reclassified to conform with the presentation in FY2006.)

(1) CONSOLIDATED INCOME STATEMENT

Ref		FY2006 *HK$'000*	FY2005 *HK$'000* (Restated)	Change %
1.1	Turnover	**4,574,939**	4,138,621	11%
	Cost of goods sold	**(4,336,273)**	(3,935,673)	10%
1.1	Gross profit	**238,666**	202,948	18%
	Other gains - net	**18,713**	37,940	-51%
1.2	Selling and distribution expenses	**(30,261)**	(26,939)	12%
1.2	General and administrative expenses	**(154,562)**	(148,225)	4%
	Operating profit	**72,556**	65,724	10%
1.3	Finance costs	**(45,959)**	(17,927)	156%
	Profit before income tax	**26,597**	47,797	-44%
1.4	Income tax (expense)/credit	**(68)**	29	N/A
	Minority interests	**(3,662)**	(11,637)	-69%
1.5	Profit attributable to equity holders	**22,867**	36,189	-37%
1.6	Dividends per share	**HK1.10 cents**	HK2.20 cents	-50%
1.7	Earnings per share			
	- Basic	**HK6.20 cents**	HK9.83 cents	-37%
	- Diluted	**HK6.20 cents**	HK9.77 cents	-37%

CONSOLIDATED RESULTS

1.1 Turnover and gross profit

Turnover increased by 11% over last year. Both CAMP and CMG operations recorded an encouraging growth of 16% and 8% respectively. Overall gross profit increased by 18% and gross margin increased by 0.3 percentage point. The improvement is mainly from the Hong Kong steel rebars stockholding business of CMG which recovered from last year's trough and recorded a handsome profit in FY2006. However, the fluctuation in steel price since April 2005 has adversely affected our ability to deliver our expected margin of our business in Mainland China.

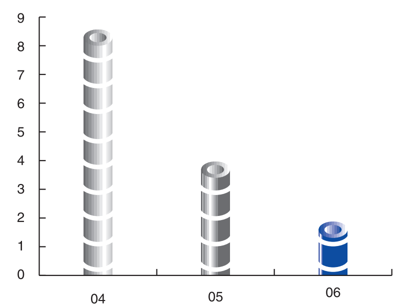
1.2 Operating expenses

Selling and distribution expenses ("S&D expenses") increased by 12% or approximately HK$3 million. The increase was in line with the growth in turnover. General and administrative expenses ("G&A expenses") also increased by 4% or approximately HK$6 million. To support our fast growing operations in PRC, we have strengthened our support team in Shanghai. Our Shenzhen office was set up in late FY2005 and a new team had been set up to support the operations in Southern China. As a result, both rental and employment costs increased.

1.3 Finance costs

Finance costs increased by 156% due to the continuous increase in interest rate. The VSC Group has closely monitored the trend of interest rate and tactically repaid the syndication loan to reduce the total bank borrowings. Interest cover (operating profit divided by finance costs) reduced to about 1.6 (FY2005: 3.7) as a consequence of the soaring finance costs. The VSC Group will deploy, if necessary, appropriate financial instruments to hedge against any significant fluctuation.

INTEREST COVER
for the years ended 31st March
Multiple



1.4 Income tax (expense)/credit

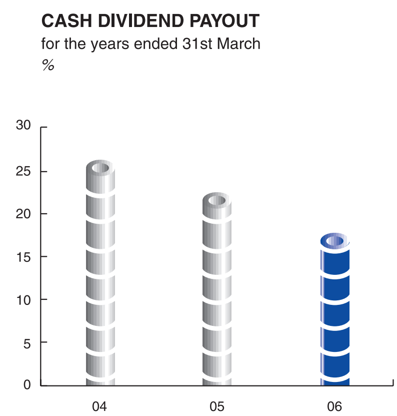
Income tax (expense)/credit included current income tax of about HK$2.5 million (FY2005: HK$8.8 million) offset by deferred income tax credit of about HK$2.5 million (FY2005: HK$8.8 million). Deferred income tax credit mainly arrived from the tax loss of our business.

1.5 Profit attributable to equity holders

Profit attributable to equity holders decreased 37% to HK$23 million. Net profit margin (profit attributable to equity holders divided by turnover) reduced from 0.9% in FY2005 to 0.5% in FY2006. Return on equity (profit attributable to equity holders divided by capital and reserves attributable to equity holders) reduced to 3.2% (FY2005: 5.3%) and return to total assets (profit attributable to equity holders divided by total assets) also reduced to 1.2% (FY2005: 1.6%). All these three ratios decreased as a result of decrease in profit attributable to equity holders.

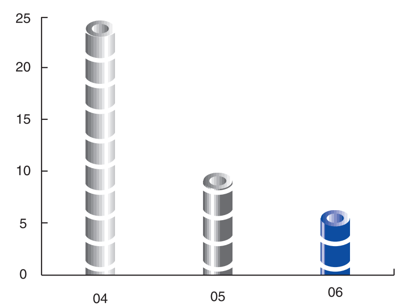
1.6 Dividends

Dividend of HK1.10 cents per share was declared for the year representing dividend payout (total divdends divided by profit attributable to shareholders X 100%) of around 18% (FY2005: 22%). 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.



1.7 Earnings per share

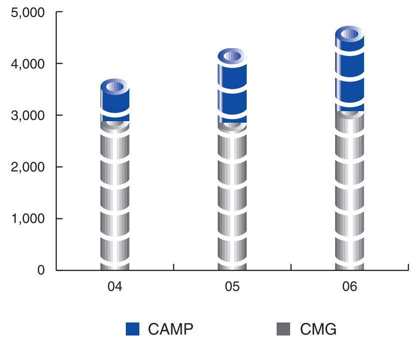
Basic earnings per share decreased by 37% to HK6.20 cents mainly due to decrease in profit attributable to equity holders. Diluted earnings per share decreased by 37% to HK6.20 cents.



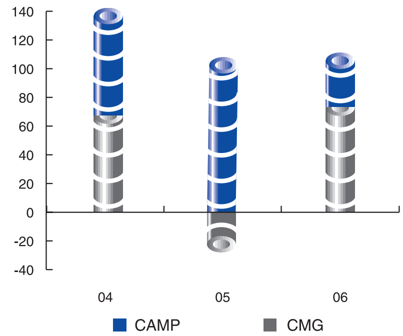
SEGMENT RESULTS

	Turnover			Segment results		
	FY2006 *HK$'000*	FY2005 *HK$'000*	Change %	**FY2006 *HK$'000***	FY2005 *HK$'000*	Change %
CAMP						
- Coil centres	**1,102,078**	905,482	22%	**12,240**	83,330	-85%
- Enclosure systems	**141,564**	135,811	4%	**8,250**	5,020	64%
- Plastics	**258,551**	248,188	4%	**11,218**	14,750	-24%
CAMP total	**1,502,193**	1,289,481	16%	**31,708**	103,100	-69%
CMG						
- Steel distribution	**2,916,604**	2,690,626	8%	**72,889**	(31,319)	N/A
- Building products	**154,333**	156,500	-1%	**947**	8,866	-89%
CMG total	**3,070,937**	2,847,126	8%	**73,836**	(22,453)	N/A
Other operations	**1,809**	2,014	-10%	**(5,650)**	1,086	N/A
	4,574,939	4,138,621	11%	**99,894**	81,733	22%

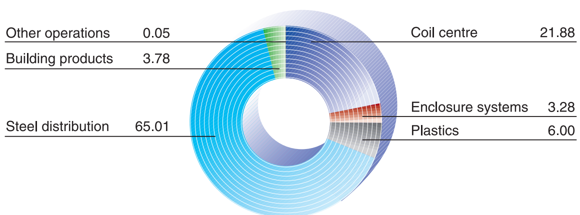
TURNOVER BY BUSINESS SEGMENT
for the years ended 31st March
HK$ million



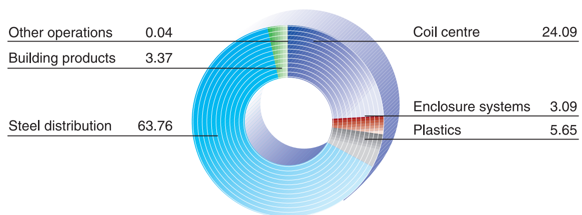
SEGMENT RESULTS BY BUSINESS SEGMENT
for the years ended 31st March
HK$ million



TURNOVER BY PRODUCT/OPERATION
for the years ended 31st March
%

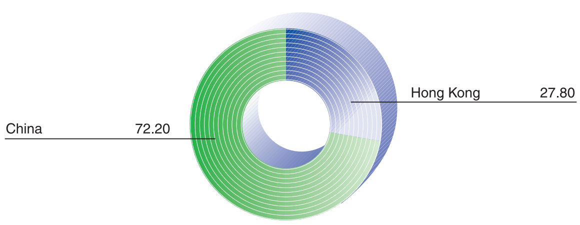


2005

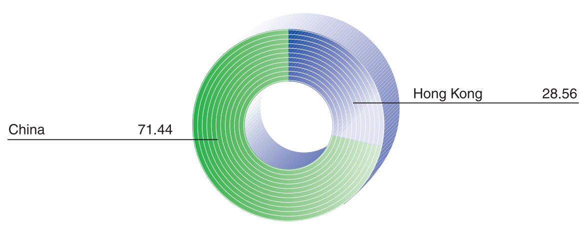


2006

TURNOVER BY GEOGRAPHICAL SEGMENT
for the years ended 31st March
%

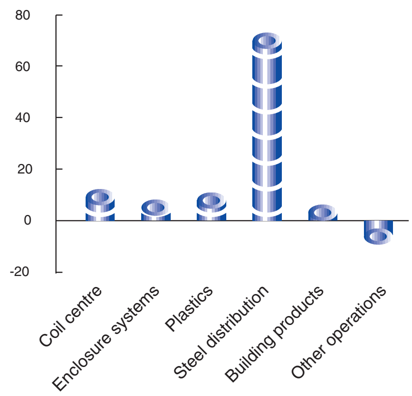


2005

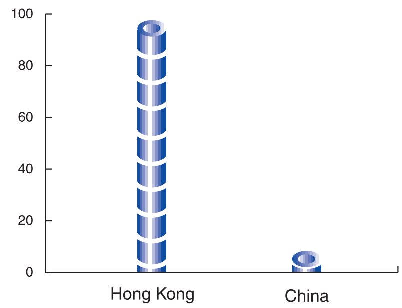


2006

SEGMENT RESULTS BY PRODUCT/OPERATION
for the year ended 31st March 2006
HK$ million



SEGMENT RESULTS BY GEOGRAPHICAL SEGMENT
for the year ended 31st March 2006
HK$ million



a) China Advanced Materials Processing ("CAMP")

Turnover of the CAMP operations went up 16% to approximately HK$1,502 million representing 33% of total turnover of the VSC Group. During FY2006, profit from the coil centre operations dropped significantly which brought the overall segment results of the CAMP operations down to approximately HK$32 million.

For FY2006, the three coil centres, Dongguan, Guangzhou and Tianjin had processed over 162,000 MT which represents a growth of 17% from the last year. This resulted in continuous improvement in the capacity utilisation of our "greenfield" Tianjin coil centre, and "brownfield" Guangzhou coil centre. Turnover increased by 22% to HK$1,102 million. However, the coil centres' performance was greatly affected by the supply and demand imbalance in the PRC. Due to the market climate with declining steel price, the actual margin was not as satisfactory as previous year. Our gross profit dropped by 61%. Both S&D expenses and G&A expenses maintained at similar level as last year. Segment results dropped by 85% to HK$12 million.

Business of VJY had improved significantly in the second half of FY2006. Turnover of VJY increased by 4% to approximately HK$142 million. Gross margin maintained at 14%. With our continuous effort to streamlining the operation, S&D expenses and G&A expenses dropped by 17% and 18% respectively. Segment results improved from HK$5 million to HK$8 million.

During FY2006, price of crude oil remained high which drove up the price of plastic resins. Some small manufacturers cannot cope with the price hike and went out of business. Larger manufacturers slowed down on their production and resulted in decrease in demand for plastic resins. Sales volume of Plastics department thus dropped by 12% but turnover increased by 4% to HK$259 million. S&D expenses decreased by 6% as a result of decrease in sales volume. G&A expenses also decreased by 34% because of the decrease in employment costs as a result of closing down of the Machinery department. Segment results decreased by 24% to about HK$11 million.

b) Construction Materials Group ("CMG")

CMG rebound from last year's trough and successfully turnaround from last year's lost of HK$22 million to profit of HK$74 million. Turnover also increased by 8% to about HK$3,071 million.

As a result of the VSC Group's determined efforts to modify its business model to offer better equity holders' value, the Hong Kong Steel Department had turnaround its operation and recovered from a loss position. The department achieved an encouraging segment results of HK$95 million in FY2006 and turnover increased 17% to HK$1,232 million. Steel distribution in Mainland China suffered from the continual deployment of macro-economic management policies which cool down steel industry and real estate market. Construction projects were delayed and demand for construction steel was weak. Turnover for steel distribution in Mainland China increased slightly by 3% but gross profit dropped significantly by 77% to HK$13 million.

Turnover of the Building Products Department decreased by 1% to HK$154 million as compared to last year. Turnover of Hong Kong Project Sales decreased but was compensated by Leisure Plus, our retail outlet and showroom which soared by 27% to reach HK$37 million. The department continued to diversify into the booming cities like Shanghai, Shenzhen and Guangzhou. The VSC Group will continue our distribution in Shanghai, Shenzhen and Guangzhou from TOTO on wholesale, channel sales and project sales of sanitary wares. Distribution channel have been established to expand sales coverage in these cities. For FY2006, the turnover and gross profit of Leisure Plus Shanghai increased by 7% and 1% respectively. The operation in Shenzhen earned revenue of HK$18 million and already achieved breakeven point.

(2) CONSOLIDATED BALANCE SHEET

		As at 31st March				
		2006		2005		Change
Ref		***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	%
	Property, plant and equipment		**103,198**		103,012	0%
	Leasehold land and land use rights		**22,741**		23,091	-2%
2.1	Investment properties		**48,000**		71,100	-32%
	Goodwill		**6,775**		8,026	-16%
2.2	Interest in an associate		**5,832**		2	2,915%
	Deferred income tax assets		**17,193**		13,797	25%
2.3	Available-for-sale financial assets/ Non-trading securities		**13,372**		34,101	-61%
	Current assets:		**1,630,092**		2,019,703	-19%
2.4	Inventories	**514,304**		895,846		-43%
	Due from customers on installation contract work	**8,325**		14,616		-43%
	Prepayments, deposits and other receivables	**173,202**		161,820		7%
2.5	Trade and bills receivables	**729,615**		736,758		-1%
	Loans receivable	**—**		6,491		-100%
3.1	Pledged bank deposits	**6,090**		12,186		-50%
3.1	Cash and cash equivalents	**198,556**		191,986		3%

		As at 31st March				
		2006		2005		Change
Ref		***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	%
	Current liabilities:		**(1,083,826)**		(1,376,754)	-21%
3.1	Borrowings	**(770,219)**		(910,903)		-15%
	Trade and bills payables	**(186,596)**		(364,938)		-49%
	Due to customers on installation contract work	**(102)**		(942)		-89%
	Amount due to an associate	**(9,396)**		—		N/A
	Receipts in advance	**(56,695)**		(31,940)		78%
	Accrued liabilities and other payables	**(49,116)**		(55,394)		-11%
	Derivative financial instruments	**(216)**		—		N/A
	Current income tax liabilities	**(11,486)**		(12,637)		-9%
3.1	Borrowings non-current portion		**—**		(166,667)	-100%
	Derivative financial instruments		**(736)**		—	N/A
	Deferred income tax liabilities		**(2,382)**		(6,200)	-62%
	Net assets		**760,259**		723,211	5%
	Equity:					
	Share capital		**36,861**		36,861	0%
	Reserves		**460,993**		450,856	2%
	Retained earnings		**213,546**		192,008	11%
	Proposed dividends		**4,055**		8,109	-50%
3.1	Capital and reserves attributable to equity holders		**715,455**		687,834	4%
	Minority interests		**44,804**		35,377	27%
			760,259		723,211	5%

2.1 Investment properties

Investment properties decreased by approximately HK$23 million. A subsidiary which held an investment property of approximately HK$35 million was disposed during FY2006. The current investment properties profile includes a piece of land, an industrial unit and two residential apartments. All these investment properties were valued by independent surveyors on 31st March 2006. The open market value of our investment properties increased by approximately HK$11 million because of the recovery of the Hong Kong economy and good market sentiment.

2.2 Interest in an associate

During FY2006, VSC directly and through its 66.7% owned SHBSC invested in a coil centre in Changshu. The coil centre is still under construction and has not yet commenced business.

2.3 Available-for-sale financial assets/Non-trading securities

Available-for-sale financial assets/Non-trading securities decreased by approximately HK$20 million. In FY2006, the VSC Group decided to fully exercise its put option in its investment in the joint venture with Beijing Shougang Group and reduced the investment by approximately HK$17 million. The investments in NAS had been restated from approximately HK$11 million to around HK$4 million with reference to market share price at year end. The decrease in market value of about HK$7 million together with the deficit of about HK$7 million in investment revaluation reserve brought forward from last year was considered as impaired and transferred to the income statement.

2.4 Inventories

In view of the increasing interest, thus higher inventory carrying cost, VSC has compressed the inventory level. Inventories decreased 43% to about HK$514 million from last year level of about HK$896 million. By business segment, inventories of CAMP and CMG decreased by approximately HK$54 million and HK$328 million respectively. Overall inventory turnover days (average inventories divided by cost of sales X 365 days) decreased to about 59 days (FY2005: 74 days).

2.5 Trade and bills receivable

Trade and bills receivables ("AR"), net of provision for bad and doubtful receivables, decreased by 1% or approximately HK$7 million. AR of CAMP, with its expanding operations, increased by about HK$53 million while AR of CMG decreased by about HK$60 million. Overall AR turnover days (average AR divided by turnover X 365 days) decreased to around 58 days (FY2005: 69 days).

During the normal course of its businesses, the VSC Group offered credit terms ranging from 15 to 90 days. An ageing analysis of AR based on delivery date was as follows:

	As at 31st March 2006 *HK$ million*	As at 31st March 2005 *HK$ million*
0 to 60 days	**472.7**	448.2
61 to 120 days	**175.3**	171.0
121 to 180 days	**42.7**	83.2
181 to 365 days	**19.6**	20.1
Over 365 days	**34.4**	27.7
	744.7	750.2
Less: Provision for bad and doubtful receivables	**(15.1)**	(13.5)
	729.6	736.7

(3) FINANCIAL RESOURCES AND LIQUIDITY

3.1 Liquidity and financing

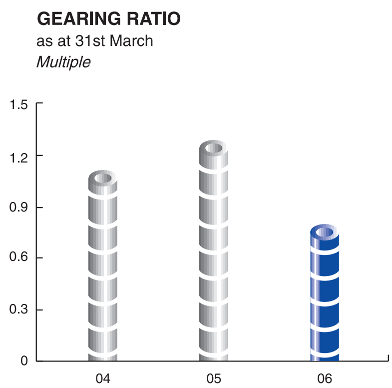
The VSC Group's cash and cash equivalents were HK$199 million as at 31st March 2006. Net cash inflow generated from operating activities was approximately HK$289 million in FY2006 compared to net cash outflow of HK$113 million in FY2005.

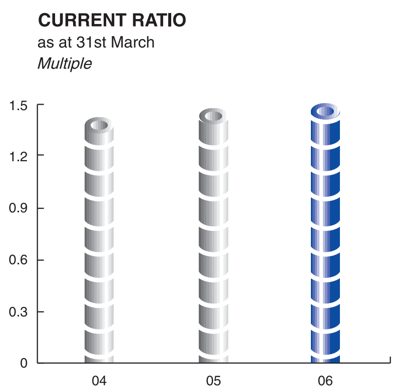
The VSC Group's total capital and reserves attributable to equity holders increased by 4% to approximately HK$715 million as at 31st March 2006 as compared to approximately HK$688 million at the end of last year.

As at 31st March 2006, the VSC Group's cash and cash equivalents totaled approximately HK$199 million (2005: HK$192 million) of which about 48.5% in RMB, 18.8% in HK dollar, 18.8% in US dollar, 11.8% in Pound Sterling and 2.1% in other currencies.

As at 31st March 2006, the VSC Group's total borrowings amounted to approximately HK$770 million of which 100% were interest-bearing borrowings (2005: HK$1,078 million). Net interest-bearing borrowings, after deducting cash and cash equivalents of about HK$199 million, amounted to approximately HK$571 million (2005: HK$886 million). The decrease in borrowings was attributable to the improvement in working capital efficiency and the decrease in steel price. The finance cost was increased as compared with last year due to the fact that the interest rate has risen.

During the reporting year, VSC Group focused on improving the working capital efficiency, minimising the stock and debt level, and rearranging internal resources to enable the early retirement of the approximately HK$167 million syndicated bank loan by the end of FY 2006.





Net gearing ratio at 31st March 2006, calculated on the basis of net interest-bearing borrowings to capital and reserves attributable to equity holders significantly improved from 129% to 80% and the current ratio was slightly improved from 1.47 times to 1.50 times as compared to 31st March 2005. The VSC Group is comfortable to maintain these financial ratios at current levels, 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 2006, letters of credit and trust receipt loans facilities available were around HK$1.3 billion and HK$1.0 billion respectively. Bank loan and trade facilities of approximately RMB157 million were obtained to mitigate its exposure on its Mainland China operations. The VSC Group will also continue its policy of maintaining gearing ratio at this level to minimize the finance cost.

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

	As at 31st March 2006 *HK$ million*	As at 31st March 2005 *HK$ million*
Repayable:		
Within one year	**770**	911
After one year but within two years	**—**	42
After two year but within three years	**—**	125
Total interest-bearing borrowings	**770**	1,078
Less: Cash and cash equivalents	**(199)**	(192)
Net interest-bearing debts	**571**	886

In terms of the VSC Group's available financial resources as at 31st March 2006, the VSC Group had total undrawn bank loan and trade facilities of HK$0.7 billion and net cash on hand of HK$0.2 billion. 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 be 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 and RMB. As exchange rate between HK dollar and the US dollar is fixed, together with the minimal fluctuation in exchange rate between HK dollar 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.

As at 31st March 2006, about 73.3% of the VSC Group's interest-bearing borrowings were in HK dollar, 19.7% in RMB, and 7% in US dollar. 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 2006, the VSC Group had total outstanding currency swaps, to hedge principal repayment of future US dollar debts under letters of credit, in the amount of approximately US$97 million.

All of the VSC Group's borrowings were subject to floating rates basis. 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 2006, the VSC Group had outstanding performance bonds for its sanitary wares supply projects amounting to approximately HK$1.6 million (2005: HK$6 million).

3.4 Charges on assets

As at 31st March 2006, the VSC Group had certain charges on assets which included (i) buildings of approximately HK$25 million, leasehold land and land use rights of approximately HK$13 million and inventories of approximately HK$33 million were pledged as collaterals for certain of the VSC Group's short-term bank loans; (ii) certain inventories were held under trust receipt bank loan arrangements; and (iii) bank deposits of approximately HK$6 million were pledged as collateral for the VSC Group's banking facilities and of approximately HK$0.2 million was restricted as customs deposits in Mainland China.