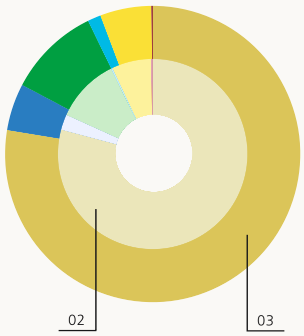
Turnover by Product/Operation

for the years ended 31st March

%

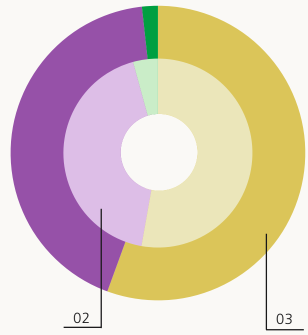


Van Shung Chong Holdings Limited
Financial Cockpit Chart

Gross Profit by Business Segment

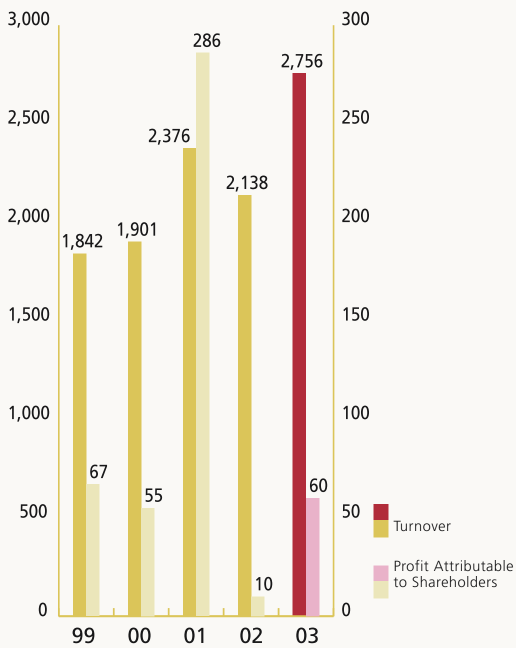
for the years ended 31st March

%



Turnover & Profit Attributable to Shareholders

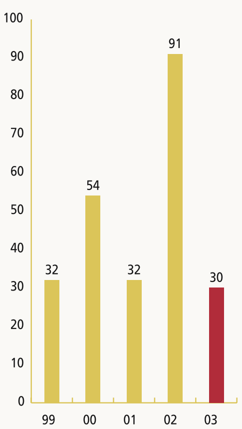
for the years ended 31st March



Cash Dividend Payout

for the years ended 31st March

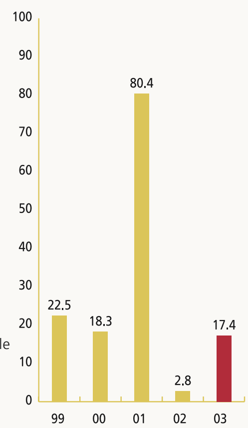
%



Basic Earnings Per Share

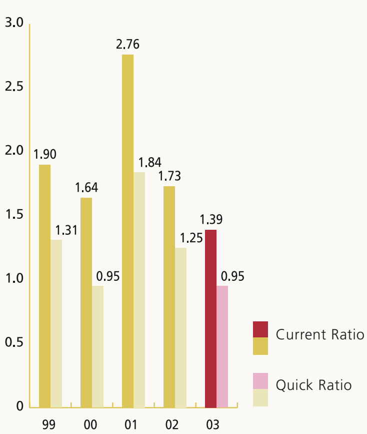
for the years ended 31st March

HK cents



Liquidity Ratios

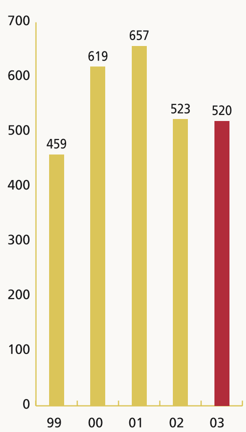
as at 31st March



Shareholders' Equity

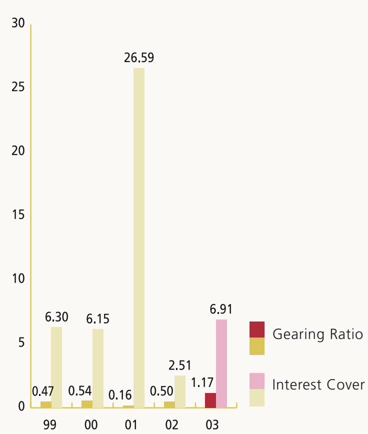
as at 31st March

HK$ million



Gearing Ratio/Interest Cover

as at 31st March



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 2002 and 2003 are referred to herein as FY2002 and FY2003, respectively. Certain comparative figures in FY2002 have been reclassified to conform with the presentation in FY2003.)

(1) CONSOLIDATED PROFIT AND LOSS ACCOUNT

		FY2003									
Ref		China Advanced Materials Processing				Construction Materials Group					
		Coil centres *HK$'000*	Enclosure systems *HK$'000*	Plastics and machinery *HK$'000*	Subtotal *HK$'000*	Steel distribution *HK$'000*	Building products *HK$'000*	Subtotal *HK$'000*	Other operations *HK$'000*	Unallocated corporate expenses *HK$'000*	Grand total *HK$'000*
	Turnover	277,302	39,986	155,063	472,351	2,138,344	141,258	2,279,602	3,816	—	2,755,769
	Cost of sales				(378,834)			(2,157,821)	—	—	(2,536,655)
	Gross profit				93,517			121,781	3,816	—	219,114
	Other revenue										
	— Interest income				196			90	4,601	—	4,887
	— Dividend income from a long-term investment				188			—	—	—	188
	— Return from a joint venture				—			—	6,615	—	6,615
	Deficit on revaluation of investment properties				—			—	(1,500)	—	(1,500)
	Selling and distribution expenses				(7,925)			(8,919)	(1)	(262)	(17,107)
	General and administrative expenses				(26,341)			(47,218)	(3,486)	(58,103)	(135,148)
1.1	Operating profit				59,635			65,734	10,045	(58,365)	77,049
1.2	Finance cost										(11,144)
	Profit before taxation and minority interests										65,905
	Taxation and minority interests										(5,493)
	Profit attributable to shareholders										60,412
1.3	Dividends per share										HK 5.8 cents
1.4	Earnings per share										
	— Basic										HK 17.4 cents
	— Diluted										HK 17.3 cents

Ref		FY2002									
		China Advanced Materials Processing				Construction Materials Group					
		Coil centres *HK$'000*	Enclosure systems *HK$'000*	Plastics and machinery *HK$'000*	Subtotal *HK$'000*	Steel distribution *HK$'000*	Building products *HK$'000*	Subtotal *HK$'000*	Other operations *HK$'000*	Unallocated corporate expenses *HK$'000*	Grand total *HK$'000*
	Turnover	234,899	5,609	142,988	383,496	1,691,818	55,996	1,747,814	6,535	—	2,137,845
	Cost of sales				(317,430)			(1,666,645)	—	—	(1,984,075)
	Gross profit				66,066			81,169	6,535	—	153,770
	Other revenue										
	— Interest income				350			195	2,175	—	2,720
	— Return from a joint venture				—			—	6,488	—	6,488
	Surplus on revaluation of investment properties				—			—	1,160	—	1,160
	Selling and distribution expenses				(6,970)			(6,743)	—	(85)	(13,798)
	General and administrative expenses				(21,780)			(45,536)	(20,014)	(43,122)	(130,452)
1.1	Operating profit				37,666			29,085	(3,656)	(43,207)	19,888
1.2	Finance cost										(7,908)
	Share of loss of associates										(88)
	Profit before taxation and minority interests										11,892
	Taxation and minority interests										(1,782)
	Profit attributable to shareholders										10,110
1.3	Dividends per share										HK 2.6 cents
1.4	Earnings per share										
	— Basic										HK 2.8 cents
	— Diluted										HK 2.8 cents

1.1 Operating profit

a) China Advanced Materials Processing ("CAMP")

The consolidated financial results of the CAMP operations in the VSC Group include the following business units, 1) wholly-owned coil centres in Dongguan and Tianjin; 2) manufacturing of enclosure systems in Shenzhen; and 3) distribution of engineering plastic resins and injection moulding machines. For FY2003, turnover and operating profit before unallocated corporate expenses of the CAMP operations have both increased substantially by 23% from approximately HK$383 million to HK$472 million and 58% from approximately HK$38 million to HK$60 million, respectively. Gross margin also increased by 15% from about 17.2% to 19.8%. Major profit contribution was derived from the coil centre operations with results from VJY and plastic/machinery divisions almost offsetting each other. Results from the 14% investment in the coil centre, Nansha Baoteel Jingchang joint venture, are not consolidated but dividend income of approximately HK$0.2 million received during the year is recognised as other revenue.

Coil centre operations achieved an excellent performance by reporting an 18% increase in turnover to approximately HK$277 million and 53% increase in gross profit to approximately HK$71 million. For the year under review, the profit was derived solely from the Dongguan coil centre as the new Tianjin coil centre was at the preparatory stage during FY2003 and therefore made no contribution to turnover and gross profit. Operating profit before unallocated corporate expenses was approximately HK$57 million or a remarkable 70% increase as compared with FY2002. With continuous improvements in operations such as reduction in transportation costs, selling and distribution expenses decreased by 6% despite the increase in turnover. Other positive factors for the Dongguan coil centre include the successful execution of an increase in capacity to over 100,000 metric tones per annum, and also a healthy increase in steel prices in FY2003. General and administrative expenses however increased by 12.7% to approximately HK$9.5 million, mainly due to the pre-operating costs incurred by the Tianjin coil centre, which was incorporated since July 2002.

FY2003 was the first full year of production of **VJY enclosure systems manufacturing** in its new facility at Henggang of Shenzhen. Turnover reached approximately HK$40 million or a sixfold increase from last year. In respect of the revenue source, approximately 93% of the turnover was obtained from sales of customised enclosure systems to the three main customers, namely Huawei, Zhongxing and Emerson whom were the VSC Group's key target customers. Gross profit increased by a lesser degree of 314% as it was hampered by the high cost of sales due to the substantial costs incurred in moulds for making prototypes and provision of obsolete and slow-moving inventories which were brought forward from the previous production facility. General and administrative expenses also increased by 63.3% to approximately HK$10.7 million, caused mainly by the increases in salaries, rental expenses and amortisation of goodwill as a result of the expanded scale of operation at the new plant. As such, an operating loss before unallocated corporate expenses of approximately HK$6 million was recorded.

The **Plastics division** achieved a slight increase of turnover by 9.4% to approximately HK$149 million. New customers were developed with support from our suppliers, namely Mitsubishi, UMG and Samsung. Sales of plastic resins from these three major suppliers contributed over 70% (FY2002: 50%) of the total turnover for FY2003. Affected by the downward trend of the selling prices caused by the poor global economy, gross profit was slightly down by 1.1% and operating profit before unallocated corporate expenses decreased by 5.8% to approximately HK$7 million. For the **machinery division**, reduction in sales commission for selling injection moulding machinery led to decreases in turnover and gross profit by 11.7% and 24.6%, respectively. Although general and administrative expenses were reduced by 9.5% mainly by control and reduction of staff cost, operating profit before unallocated corporate expenses was still down by 40.5% to approximately HK$1.4 million.

b) Construction Materials Group ("CMG")

The consolidated financial results of CMG in the VSC Group comprise results from the operations of the steel distribution and the building products department. For FY2003, turnover and operating profit before unallocated corporate expenses have also increased substantially by 30% from approximately HK$1,748 million to HK$2,280 million and 126% from approximately HK$29 million to HK$66 million, respectively. Gross margin also increased by 15% from about 4.6% to 5.3%. The main profit contribution was derived from the Hong Kong steel stockholding department and Shanghai Bao Shun Chang ("BSC") with results from building products department and steel distribution in Mainland China almost offsetting each other. There was no results contribution from the 7.5% investment in the Beijing PPGI joint venture as the joint venture had not commenced operations.

As a whole, the major business unit of the CMG operations, **steel distribution**, has made satisfactory improvements for FY2003. As compared to FY2002, turnover and operating profit before unallocated corporate expenses both increased significantly by 26.4% and 87.8%, respectively.

Under the difficult construction market environment in Hong Kong, the **Hong Kong steel stockholding department** remained stable with 10.7% increase in turnover and 14.5% increase in gross profit. Sales of rebars were maintained at prior year levels while turnover structural steel and couplers/soil nails soared by 84.8% and 93.2%, respectively. Coupled with the 16.4% reduction in general and administrative expenses of the department as a result of the reduction in godown rental cost, a 33.9% increase of operating profit before unallocated corporate expenses to approximately HK$50 million was achieved.

Steel distribution in Mainland China enjoyed a more rapid growth. The 66.7% (the remaining stake is owned by Baosteel) owned subsidiary, **BSC** which focuses on distribution of Baosteel's products, finished FY2003 with a 20.1% increase in turnover. Operating profit before unallocated corporate expenses and net profit contribution before minority interests reached a record high of approximately HK$15 million and HK$10 million, respectively. Sales to the iSteelAsia Group also increased by 24.2%, in line with the business expansion of the iSteelAsia Group in Mainland China. Turnover of steel distribution in Mainland China amounted to approximately HK$217 million and operating profit before unallocated corporate expenses of approximately HK$1.5 million was recorded.

The **building products department** is making good progress. Turnover and gross profit in FY2003 increased by 152% and 110%, respectively and operating loss before unallocated corporate expenses reduced by 70% to approximately HK$2 million. The increase in turnover was mainly contributed by the kitchen cabinet division, which represents over 70% of the department's turnover. Three major projects of kitchen cabinet division, namely Sorrento, Kowloon Station Package II, Phase 1, Coastal Skyline, Tung Chung Station and Bellagio, Sham Tseng, were substantially completed by 99%, 88% and 93%, respectively as at 31st March 2003. General and administrative expenses increased by 33.5% due to increase in bad and doubtful debts, insurance cost and staff costs.

Although turnover of the sanitary ware division declined by 19%, it was compensated by the 246% increase in turnover of tiles division. Altogether, project sales of sanitary ware and tiles were up by 23% but were still insufficient to absorb the operating costs for a profitable situation.

In April 2002, the first retail outlet with showroom, **Leisure Plus**, was opened. Sales gradually increased during the year with turnover amounting to approximately HK$4 million for FY2003. However, such revenue was not sufficient to absorb the full year fixed overheads in its first year of operation. On the other hand, retail sales and short-term kitchen cabinets installation for individual projects allowed the department to benefit from shorter days of receivable and lower holding inventory costs.

c) Other operations

Other operations comprise rental of investment properties, finance business and other investments. Turnover dropped 42% to approximately HK$4 million because less rental income was received during FY2003. Other revenue comprised guarantee return received from the GFTZ fuel company of approximately HK$6.6 million and interest income from the iSteelAsia Group of approximately HK$4.6 million. Operating profit before unallocated corporate expenses amounted to approximately HK$10 million as compared to an operating loss of approximately HK$4 million in FY2002.

d) Unallocated corporate expenses

Unallocated corporate expenses increased by 35% to approximately HK$58 million. Factors attributable to the increase included the one-time provision costs of moving our Hong Kong headquarters of which approximately HK$2 million was for reinstatement costs and approximately HK$3.3 million was for accelerated depreciation of immovable assets of the previous office. Implementation of the Oracle ERP system and other supply chain management softwares resulted in a further HK$3 million increase in depreciation. Net rental expenses and staff costs also increased by approximately HK$3.3 million and HK$2.8 million, respectively.

1.2 Finance cost

In line with the increase in turnover, finance cost increased by 41% to approximately HK$11.1 million. As the VSC Group expands its business scale, in particular the growth from its steel processing and distribution businesses, it is expected that the finance cost from both bank trade lines and term loans will also be increased. Interest cover (operating profit divided by finance cost) improved to about 6.91 (FY2002: 2.51) as a consequence of the improvement in operating profit.

1.3 Dividends per share

Total cash dividends increased from HK2.6 cents to HK5.8 cents. Dividend payout (total dividends divided by profit attributable to shareholders X 100%) was around 30%. Together with the special share buyback at HK$0.98 per share made during FY2003, the VSC Group continues its policy to provide satisfactory return to its shareholders.

1.4 Earnings per share

Basic earnings per share improved by about 521% to HK17.4 cents. Diluted earnings per share improved by about 518% to HK17.3 cents. Such improvements were due to the increase in profit attributable to shareholders and reduction of issued share capital as a result of share repurchase made during FY2003.

(2) CONSOLIDATED BALANCE SHEETS

Ref		As at 31st March 2003		2002		% Change
		HK$'000	***HK$'000***	*HK$'000*	*HK$'000*	
2.1	Property, plant and equipment		**125,789**		123,248	+2.1
	Investment properties		**31,000**		32,500	-4.6
	Investment in associates		**2**		2	—
2.2	Long-term investments		**45,711**		32,561	+40.4
	Goodwill		**4,624**		6,474	-28.6
	Current assets:		**1,211,578**		791,401	+53.1
2.3	— inventories	**381,477**		217,775		+75.2
2.4	— gross amount due from customers for installation contract work	**19,034**		1,891		+906.6
2.5	— prepayments, deposits and other receivables	**79,520**		41,444		+91.9
2.6	— accounts receivable	**655,025**		470,894		+39.1
	— loans receivable	**6,891**		10,843		-36.4
2.7	— pledged bank deposits	**7,957**		3,021		+163.4
	— cash and other bank deposits	**61,674**		45,533		+35.4
	Current liabilities:		**(871,073)**		(458,053)	+90.2
	— short-term borrowings	**(590,667)**		(262,982)		+124.6
	— accounts and bills payable	**(212,020)**		(152,571)		+39.0
2.8	Subtotal	**(802,687)**		(415,553)		+93.2
2.5	— receipts in advance	**(29,782)**		(6,075)		+390.2
	— accrued liabilities and other payables	**(27,938)**		(33,980)		-17.8
2.4	— gross amount due to customers for installation contract work	**(4,590)**		—		N/A
	— taxation payable	**(6,076)**		(2,445)		+148.5
2.8	Long-term bank loan, non-current portion		**(20,475)**		—	N/A
	Deferred taxation		**(250)**		(250)	—
	Minority interests		**(6,502)**		(4,573)	+42.2
	Net assets		**520,404**		523,310	-0.6
2.9	Capital and reserves:					
	Share capital		**31,226**		35,498	-12.0
	Reserves		**356,222**		359,311	-0.9
	Retained profit		**114,845**		125,661	-8.6
	Proposed dividends		**18,111**		2,840	+537.7
	Shareholders' equity		**520,404**		523,310	-0.6

As a whole, the VSC Group significantly increased its scale of operation, as reflected by the increase of both assets and liabilities. Current assets and current liabilities increased by 53% and 90%, respectively, as a result of the expanded scale of steel processing and distribution businesses. Specifically, the current asset increase were mainly attributed to increase in the inventories and accounts receivable whilst increases in the current liabilities were mainly attributable to increase in corresponding bank and other borrowings, accounts payable and bills payable.

2.1 Property, plant and equipment

Net book value of property, plant and equipment was slightly increased by approximately HK$2.5 million. Total fixed assets additions during FY2003 amounted to approximately HK$23.4 million which included mainly capital investment in Dongguan and Tianjin coil centres, and setting up of Leisure Plus. The increase was offset by annual depreciation charge of approximately HK$20.1 million and disposal of fixed assets with net book value of approximately HK$0.7 million.

2.2 Long-term investments

The investment in iMerchants Limited brought forward from last year has been disposed of in exchange for an increase in investment in iSteelAsia.com Limited ("iSteelAsia"). As a result, the VSC Group's equity interest in iSteelAsia increased from about 17.8% to 19.2%. Due to the continuous weak performance of the e-Business related securities, the investments in iSteelAsia were restated from approximately HK$27 million to around HK$15 million with reference to the market share price at year end. The decrease of about HK$12 million was transferred to the asset revaluation reserve. In FY2003, the VSC Group invested approximately HK$24 million, represents a 7.5% equity stake in a new Beijing joint venture company of the Beijing Shougang Group for the manufacturing of colour-coated steel sheets. The remaining balance of long-term unlisted investments of approximately HK$6 million represents mainly the investment costs in the Baosteel Jingchang joint venture.

2.3 Inventories

In the latter half of FY2003, global steel price rose substantially by over 50% for certain types of steel as the steel market was affected by the uncertainties created by the Iraqi war as well as global demand and supply. Coupled with the increase in the demand from its steel distribution, the VSC Group cautiously raised its stock position (with only 31% increase in terms of tonnage in steel) and as such, overall inventories in dollar terms increased by about 75% to approximately HK$381 million. Overall inventory turnover (average inventories divided by cost of sales x 365 days) remained at around 43 days (FY2002: 42 days).

2.4 Gross amount due from/to customers for installation contract work

This amount represented the outstanding contract sum due from/to customers for kitchen cabinets installation contract work completed less any progress billings received and receivable as at year end and any foreseeable losses. The major contract in progress at year end was Sorrento, Kowloon Station Package II, Phase 2. As the VSC Group completed several of its large kitchen cabinets projects according to project progress, the gross amount due from/to customers for kitchen cabinets installation contract work at year end increased to about HK$19 million and HK$5 million, respectively.

2.5 Prepayments, deposits and other receivables/Receipts in advance

Prepayments, deposits and other receivables increased by 92% due mainly to an increase in deposits placed with the steel suppliers of BSC in accordance with the prevailing market practice of China steel industry. Such deposits increased from approximately HK$11 million to approximately HK$37 million with the growth of BSC's business. BSC, in turn, required deposits from its customers and such back-to-back deposits received also increased from approximately HK$5 million to approximately HK$27 million which mainly contributed to the 390% increase in receipts in advance. Value-added tax receivables in relation to BSC's increased stock level also increased by approximately HK$5 million.

2.6 Accounts receivable

Accounts receivable ("AR"), net of provision for doubtful debts, increased by about 39%. The increase in AR mainly arose from our steel distribution business in Mainland China. AR from these customers totalled approximately HK$105 million of which over 90% were aged less than 60 days. AR from the iSteelAsia Group also increased by approximately HK$72 million due to the expansion of its steel trading business. Overall accounts receivable turnover (average AR divided by turnover x 365 days) increased to around 75 days (FY2002: 71 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 2003 *HK$ million*	As at 31st March 2002 *HK$ million*
0 to 60 days	**416.8**	358.5
61 to 120 days	**151.0**	93.8
121 to 180 days	**42.3**	17.3
181 to 365 days	**43.2**	3.6
Over 365 days	**16.3**	19.0
	669.6	492.2
Less: Provision for bad and doubtful debts	**(14.6)**	(21.3)
	655.0	470.9

2.7 Pledged bank deposits

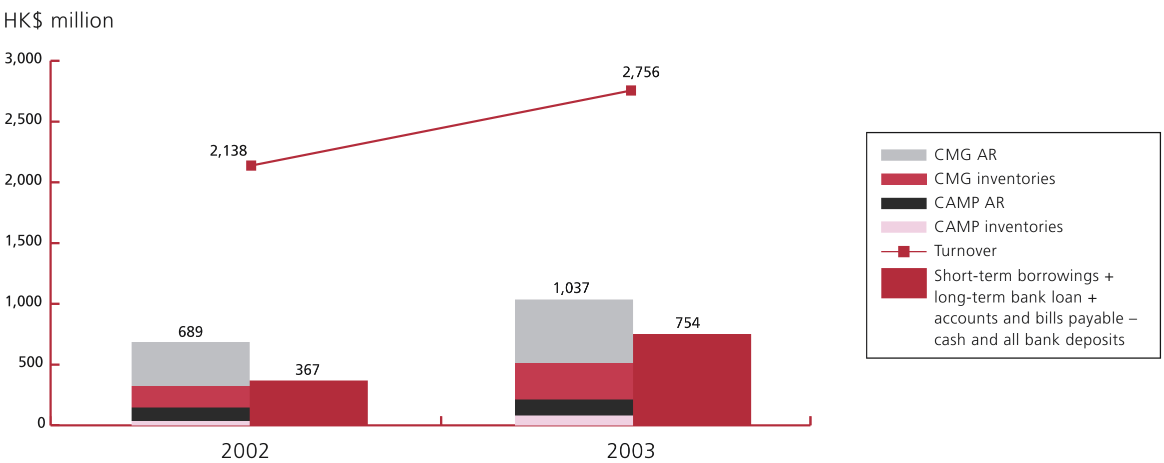
Pledged bank deposits as at 31st March 2003 of approximately HK$8 million represented security under the requirements of newly obtained Renminbi ("RMB") bank facilities whereas the balance as at 31st March 2002 represented deposits required by the China customs office. Since the Dongguan coil centre has attained Class A Enterprise status, all such deposits have been released in FY2003.

2.8 Borrowings and liabilities

Sum of the short-term bank borrowings, accounts and bills payable increased by about 93%. The increase as stated before was mainly due to the increased steel price and purchase of steel from our expanded steel processing and distribution as well as capital investment in various new business set ups such as enclosure systems manufacturing, Tianjin coil centre, and Beijing Shougang PPGI factory (a 3-year bank term loan in the amount of HK$23.4 million was obtained to finance the PPGI investment, of which approximately HK$20 million was stated as long-term bank loan, non-current portion). Gearing ratio for interest bearing loans (short-term borrowings and long-term bank loan divided by shareholders' equity) was also increased to about 1.17 (2002: 0.50).

GROWTH OF TURNOVER VS ASSETS/LIABILITIES

As at and for the years ended 31st March



2.9 Capital and reserves

Major changes and movements in our capital and reserves are highlighted as follows:

Decrease in nominal value of share capital of about HK$4 million was mainly attributable to approximately HK$5 million decrease due to repurchase of shares, and approximately HK$1 million increase due to the issue of shares upon exercise of employee share options. Increase in reserves (including retained profit and proposed dividends) of about HK$1 million was mainly attributable to (i) approximately HK$48 million decrease to share premium due to repurchase of shares; (ii) approximately HK$12 million decrease to asset revaluation reserve from deficit on revaluation of long-term investments; (iii) approximately HK$60 million increase to retained profit for profit of FY2003; and (iv) approximately HK$3 million each for premium arising from issue of shares and for dividends paid almost offsetting each other.

(3) OTHER FINANCIAL ANALYSIS

3.1 Liquidity and financing

As shown in the consolidated cash flow statement, the VSC Group's cash and cash equivalents have been improved. A net cash inflow of approximately HK$29 million from operating activities was recorded in FY2003 as compared to a net cash inflow of approximately HK$119 million for FY2002. Such decrease was mainly due to the increase in accounts receivable and inventories offsetting by the increase in trust receipts bank loans and accounts and bills payable. Together with the net cash outflow of approximately HK$42 million from investing activities and the net cash inflow of approximately HK$34 million from financing activities, cash and cash equivalents thus increased by approximately HK$21 million. Liquidity ratios such as the current ratio (currents assets divided by current liabilities) and the quick ratio (current assets excluding inventories divided by current liabilities) were reduced but still kept at healthy levels as follows:

				% Change between	
	2003	**2002**	**2001**	**2003 and 2002**	**2003 and 2001**
Current ratio	1.39	1.73	2.76	-20%	-50%
Quick ratio	0.95	1.25	1.84	-24%	-48%

The VSC Group's business operations were generally financed by cash generated from its business activities and banking facilities provided by its banks. During FY2003, the VSC Group obtained short-term loans of about RMB25 million from banks in China to finance the working capital of its China operations. A long-term bank loan of HK$23.4 million was also obtained to finance the investment in Beijing Shougang PPGI factory. The VSC Group is also negotiating with banks in Hong Kong and China for additional financing to support its business development. As at May 2003, letter of credit and trust receipts loans facilities available were around HK$1.4 billion (2002: HK$1.3 billion) and around HK$1.1 billion (2002: HK$0.7 billion), respectively. The VSC Group also had an outstanding warrant exercisable on or before 18th November 2004, which if fully subscribed could bring in proceeds in the amount of about HK$42 million. With its strong financial background and keen support from the banks and the investors, the VSC Group is confident of obtaining the necessary funding at very competitive pricing for future business expansion.

3.2 Foreign exchange and interest exposure

The foreign currencies involved in the VSC Group's business transactions were primarily US dollar, RMB and Euro.

A majority of the VSC Group's inventory purchases (steel stockholding, buildings products, coil centre and plastics) were made in US dollar whereas majority of sales were denominated in Hong Kong dollar. Theoretically, the VSC Group was subject to foreign exchange exposure in Hong Kong dollar against US dollar for trust receipts loan borrowings plus any uncovered inventory position to fulfill sales contracts. However, with the strong support from the government to maintain the peg system in Hong Kong, the exchange rate for the US dollar should be relatively stable and the VSC Group's potential exposure in US dollar should thus be minimal in the foreseeable future. The VSC Group will continue to monitor closely the exchange risks by requesting US dollar settlement from customers and hedging by forward contracts and applicable derivatives where necessary.

Foreign exchange exposure relating to major businesses and investments in Mainland China were assessed as follows:

		Foreign Exchange Exposure *HK$ million*	Sales Income	Purchases	Local Expenses
a)	Dongguan coil centre	23	HK$/RMB	US$	RMB
b)	Enclosure systems manufacturing	15	RMB	RMB	RMB
c)	Tianjin coil centre	12	RMB	US$/RMB	RMB
d)	Baosteel Jingchang	6	RMB	RMB	RMB
e)	Dongguan investment properties	5	N/A	N/A	N/A
f)	Shanghai Bao Shun Chang	3	RMB	RMB	RMB
Total:		64			

The VSC Group's various investments and assets in Mainland China totalling approximately HK$64 million were subject to foreign exchange exposure for any RMB devaluation upon realisation of these assets or repatriation of profit from these joint ventures. Dongguan coil centre's sales revenues were mainly denominated in Hong Kong dollar with the local operating costs predominantly financed by remittance from Hong Kong head office with limited RMB receipts. As for Tianjin coil centre and steel distribution in China, all sales revenues would be denominated in RMB while purchases would be in US dollar and RMB. The local expenses in RMB should be sufficiently covered by the RMB receipts for the operation. Costs of these operations would be increased if there was an appreciation in the RMB. We do not expect any foreign exchange exposure for operations of enclosure systems manufacturing, Shanghai Bao Shun Chang and Baosteel Jingchang since all their income/expenses are denominated in RMB. Investment in the Beijing PPGI factory is in HK dollar and properly hedged. As stated before, the VSC Group obtained RMB25 million bank loans in FY2003 to finance its operation in Mainland China and will secure more RMB bank loans and facilities in the future. The VSC Group will also continue to match RMB expenditures with RMB receipts to minimise exchange exposure.

The building products department purchased from several European suppliers in Euro and from Toto and Laufen in US dollar. While the amount involved was not very material, movements of the Euro were closely monitored and hedging by forward contracts were used to avoid erosion of the profit margin.

Interest costs of all import bank loans and the long-term bank loan were levied on US/HK dollar LIBOR/SIBOR/HIBOR basis with very competitive margin. As for the RMB bank loans, interest costs were based on loan rates set by the People's Bank of China plus competitive margin. Under the current low interest rate environment, the VSC Group benefited from such relatively lower and stable interest rate in expanding its businesses in Hong Kong and China.

3.3 Contingent liabilities and charges on assets

As at 31st March 2003, the VSC Group had consolidated contingent liabilities of approximately HK$19 million which included (i) bank guarantee in lieu of rental deposit of our Hong Kong headquarters amounting to approximately HK$3 million; (ii) performance bonds for our kitchen cabinet installation projects amounting to approximately HK$14 million; and (iii) corporate guarantee for a RMB bank loan granted to Baosteel Jingchang joint venture amounting to approximately HK$2 million. VSC also gives corporate guarantee to banks in respect of banking facilities to its subsidiaries in the amount of approximately HK$1.5 billion, including a corporate guarantee of about HK$19 million to bank for RMB working capital loan to its 66.7% owned subsidiary, BSC.

As at 31st March 2003, the VSC Group had certain charges on assets which included (i) bank deposit of approximately HK$8 million pledged for a RMB bank facility; (ii) inventories of approximately HK$15 million pledged for a RMB bank loan; and (iii) inventories held under short-term trust receipts bank loan arrangements in Hong Kong.