

1 ORGANISATION AND PRINCIPAL ACTIVITIES

Van Shung Chong Holdings Limited ("VSC") was incorporated in Bermuda on 12th January 1994 as an exempted company under the Companies Act 1981 of Bermuda. Its shares have been listed on The Stock Exchange of Hong Kong Limited since 18th February 1994.

VSC is an investment holding company. Its subsidiaries are principally engaged in (i) China Advanced Materials Processing including manufacturing of industrial products such as rolled steel flat products and enclosure systems and trading of industrial products such as engineering plastic resins and injection moulding machines, and (ii) Construction Materials Group including trading and stockholding of construction materials such as steel products, sanitary ware and kitchen cabinets and the installation work of kitchen cabinets.

2 PRINCIPAL ACCOUNTING POLICIES

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants. The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of measurement

The accounts are prepared on the historical cost basis, except for investment properties and long-term investments which are carried at revalued amounts (see Notes 2.i and 2.j).

(b) Adoption of new/revised Statements of Standard Accounting Practice

Commencing from 1st April 2002, VSC and its subsidiaries (together the "VSC Group") have adopted the following Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 34	:	Employee benefits

Except for certain presentational changes which have been made upon the adoption of SSAP 1 (revised) and SSAP 15 (revised), the adoption of the above new/revised SSAPs has no material effect on the accounts.

The 2002 comparative figures presented herein have incorporated the effect on the adoption of the new/revised SSAPs.

2 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(c) Basis of consolidation

The consolidated accounts include the accounts of VSC and its subsidiaries, together with the VSC Group's share of post-acquisition results and reserves of its associates under the equity method of accounting. The results of subsidiaries and associates acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal.

The gain or loss on disposal of a subsidiary represents the difference between the proceeds of the sale and the VSC Group's share of its net assets together with any unamortised goodwill or negative goodwill taken to reserve and which was not previously charged or recognised in the consolidated profit and loss account and any related cumulative foreign currency translation adjustments.

Any significant intercompany transactions and balances within the VSC Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

(d) Goodwill

Goodwill arises where the fair value of the consideration given exceeds the VSC Group's share of the aggregate fair values of the identifiable net assets acquired. Goodwill is recognised as an asset in the balance sheet and is amortised on a straight-line basis over its estimated economic life. The carrying value of goodwill is assessed periodically or when factors indicating an impairment are present. Any impairment of goodwill is recognised as an expense in the period in which the impairment occurs.

(e) Subsidiaries

Subsidiaries are those entities in which the VSC directly or indirectly controls more than one half of the voting power, has the power to govern the financial and operating policies, to appoint or remove the majority of the members of the board of directors, or to cast majority votes at the meetings of the board of directors.

In VSC's balance sheet, investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by VSC on the basis of dividends received and receivable.

2 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(f) Associates

An associate is a company over which the VSC Group has significant influence, but not control or joint control, over its financial and operating policy decisions. In the consolidated accounts, investment in associates is accounted for under the equity method of accounting, whereby the investment is initially recorded at cost and is adjusted thereafter to recognise the VSC Group's share of the post-acquisition results of associates, distributions received from associates, other necessary alterations in the VSC Group's proportionate interest in associates arising from changes in the equity of associates that have not been included in the profit and loss account of associates, amortisation of the difference between the cost of investment and the VSC Group's share of the aggregate fair value of the identifiable net assets acquired at the date of acquisition (goodwill), and any impairment loss. The VSC Group's share of post-acquisition results of associates is included in the consolidated profit and loss account.

(g) Contractual joint ventures

A contractual joint venture is an entity established between the VSC Group and one or more other parties for a pre-determined period of time, with the rights and obligations of the joint venture partners being governed by a contract. If the VSC Group is able to govern and control the financial and operating policies of the contractual joint venture so as to obtain benefits from its activities, such joint venture is considered as a de facto subsidiary and is accounted for as a subsidiary. If the VSC Group can only exercise significant influence over the contractual joint venture, such joint venture is accounted for as an associate.

(h) Property, plant and equipment and depreciation

Property, plant and equipment, other than investment properties and construction-in-progress, are stated at cost less accumulated depreciation and any impairment loss. Major expenditures on modifications and betterments of property, plant and equipment which will increase their future economic benefits are capitalised, while expenditures on maintenance and repairs are expensed when incurred. Depreciation is provided on a straight-line basis to write off the cost of each asset over its estimated useful life. The annual rates of depreciation are as follows:

Land	2% (lease terms)
Buildings	2.5% to 4%
Furniture and equipment	15% to 33%
Machinery	10% to 25%
Motor vehicles	20%

2 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(h) Property, plant and equipment and depreciation (Cont'd)

The depreciation methods and useful lives are reviewed periodically to ensure that the methods and rates of depreciation are consistent with the expected pattern of economic benefits from property, plant and equipment.

Gains or losses on disposal of property, plant and equipment are recognised in the profit and loss account based on the net disposal proceeds less the then carrying amount of the assets.

Construction-in-progress represents leasehold improvements under construction. It is stated at cost less any impairment loss. Cost includes construction expenditures incurred and other costs attributable to the construction of the buildings. No depreciation is provided in respect of construction-in-progress until the construction work is completed.

(i) Investment properties

Investment properties are leasehold interests in land and buildings held for their long-term investment potential. These properties are included in the balance sheet at their open market value on the basis of an annual valuation by independent qualified valuers. All changes in the value of investment properties are dealt with in the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a deficit on a portfolio basis, in which case the net deficit is charged to the profit and loss account. When an investment property is disposed of, previously recognised revaluation surpluses are reversed and the gain or loss on disposal reported in the profit and loss account is determined based on the net disposal proceeds less the original cost.

No depreciation is provided for investment properties unless the unexpired lease term is 20 years or less, in which case depreciation is provided on the then carrying value over the unexpired lease term.

(j) Long-term investments

Long-term investments are included in the balance sheet at their fair value. Any change in the fair value on such investments is recognised directly in shareholders' equity in the asset revaluation reserve until the investments are sold or otherwise disposed of or until the investments are determined to be impaired, at which time the cumulative gain or loss is recognised in the profit and loss account. Transfers from the asset revaluation reserve to the profit and loss account as a result of impairment are reversed when circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

2 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(k) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes costs of raw materials computed using the first-in, first-out method of costing and, in the case of work-in-progress and finished goods, also direct labour and an appropriate proportion of production overheads. Net realisable value is based on the estimated selling price in the ordinary course of business, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(l) Installation contracts

When the outcome of an installation contract can be estimated reliably, contract revenue and costs associated with the contract are recognised as revenue and expenses, respectively, by reference to the stage of completion of the contract activity. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of an installation contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable and contract costs are recognised as an expense in the period in which they are incurred.

Installation contracts-in-progress at the balance sheet date are recorded at the amount of costs incurred plus recognised profits less recognised losses and progress billings, and are presented in the balance sheet as gross amount due from customers for installation contract work, an asset; or gross amount due to customers for installation contract work, a liability, where applicable. Amounts billed but not yet paid by customers for work performed on a contract, including retentions, are included in the balance sheet as accounts receivable.

(m) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision, if any.

2 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(n) Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of one of these assets may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss representing the difference between the carrying amount and the recoverable amount of an asset is recognised in the profit and loss account. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of the disposal, while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

Reversal of an impairment loss of an asset recognised in prior years is recorded when there is an indication that the impairment loss recognised for the asset no longer exists or has decreased. The reversal is recorded in the profit and loss account.

(o) Provisions and contingencies

A provision is recognised when there is a present obligation, legal or constructive, as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations, and a reliable estimate can be made of the amount of the obligations. Provisions are reviewed regularly and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Contingent liabilities are not recognised in the accounts. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the accounts but disclosed when an inflow of economic benefits is probable.

2 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(p) Turnover and revenue recognition

Turnover (net of applicable value-added tax) represents (i) the net invoiced value of merchandise sold after allowances for returns and discounts, (ii) revenue recognised for installation contracts and (iii) rental income. Revenue is recognised on the following bases:

(i) *Sales revenue*

Sales revenue is recognised when the significant risks and rewards of ownership of the merchandise have been transferred to customers.

(ii) *Revenue from installation contracts*

Revenue from each individual installation contract is recognised using the percentage-of-completion method by reference to the stage of completion of the contract activity primarily based on the proportion of contract costs incurred for work performed to date to estimated total contract costs (see Note 2.l).

(iii) *Rental income*

Rental income is recognised on a straight-line basis over the period of the relevant leases.

(iv) *Dividend income*

Dividend income is recognised when the right to receive payment is established.

(v) *Interest income*

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Advance payments received from customers prior to delivery of merchandise or before commencement of installation contract work are recorded as receipts in advance.

2 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(q) Taxation

Individual companies within the VSC Group provide for profits tax on the basis of their profit for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for profits tax purposes.

Deferred taxation is provided under the liability method, at the current tax rate, in respect of significant timing differences between profit as computed for taxation purposes and profit as stated in the accounts, except when it is considered that no liability will arise in the foreseeable future. Deferred tax assets are not recognised unless the related benefits are expected to crystallise in the foreseeable future.

(r) Employee retirement benefits

(i) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of the leave.

(ii) *Pension obligations*

The VSC Group's contributions to defined contribution retirement schemes are expensed as incurred.

(s) Borrowing costs

Borrowing costs that are directly attributable to the acquisitions, construction or production of an asset that takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(t) Operating leases

Operating leases represent leases under which substantially all the risks and rewards of ownership of the leased assets remain with the lessors. Rental payments under operating leases are charged to the profit and loss account on a straight-line basis over the period of the relevant leases.

2 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(u) Foreign currency translation

Individual companies within the VSC Group maintain their books and records in the primary currencies of their respective operations ("functional currencies"). In the accounts of the individual companies, transactions in other currencies during the year are translated into the functional currencies at the applicable rates of exchange prevailing at the time of the transaction; monetary assets and liabilities denominated in other currencies are translated into the respective functional currencies at the applicable rates of exchange in effect at the balance sheet date. Exchange gains and losses are dealt with in the profit and loss account of the individual companies.

The VSC Group prepares consolidated accounts in Hong Kong dollars. For the purpose of consolidation, all the assets and liabilities of subsidiaries with functional currencies other than Hong Kong dollars are translated into Hong Kong dollars at the applicable rates of exchange in effect at the balance sheet date; all income and expense items are translated at the applicable average exchange rates during the year. Exchange differences arising from such translation are dealt with as movements of cumulative foreign currency translation adjustments.

(v) Segments

In accordance with the VSC Group's internal financial reporting, the VSC Group has determined to present business segments as the primary reporting format and geographical segments as the secondary reporting format.

For segment presentation, capital expenditure comprises additions to property, plant and equipment, investment properties, investment in associates and long-term investments.

In respect of geographical segment reporting, turnover is based on the destination of shipment of merchandise or the location for the provision of services. Total assets and capital expenditure are classified where the assets are located.

(w) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of the cash flow statement, cash and cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice.

3 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

(a) Details of significant transactions with related parties were:

Name of related party/Nature of transaction	2003 HK\$'000	2002 HK\$'000
Metal Logistics Company Limited (i)		
— Sales made by the VSC Group	287,413	231,402
— Administrative service fees earned by the VSC Group	180	180
— Interest earned by the VSC Group	4,616	1,336
— Commission for procurement services paid/payable by the VSC Group	1,552	1,406
iSteelAsia (Hong Kong) Limited (i)		
— Rental earned by the VSC Group	600	810
— Administrative service fees earned by the VSC Group	180	180
EC.com Limited (ii)		
— Rental earned by the VSC Group	383	1,011

Notes:

- (i) Metal Logistics Company Limited and iSteelAsia (Hong Kong) Limited are wholly owned by iSteelAsia.com Limited, a company in which the VSC Group has a 19.2% equity interest as at 31st March 2003 (2002: 17.8%).
- (ii) EC.com Limited is beneficially owned by Mr. Tsang Kwok Tai, Moses, a former non-executive director of VSC, who resigned on 17th August 2002, and the amounts of such related party transactions were disclosed up to that date.

3 RELATED PARTY TRANSACTIONS (Cont'd)

- (b) The amounts due from a related company arising from transactions described in Note 3.a are included in accounts receivable. Details of these balances are as follows:

Name of related party	2003 HK\$'000	2002 HK\$'000	Maximum balance outstanding during the year HK\$'000
Metal Logistics Company Limited (i)	210,202	137,711	210,202

Note:

- (i) The balance, arising mainly from the purchases of steel, was unsecured, repayable within the VSC Group's normal credit term for trading transactions and bore interest at commercial lending rates for overdue balances.

4 TURNOVER AND REVENUE

Turnover and revenue consisted of:

	2003 HK\$'000	2002 HK\$'000
Manufacturing of industrial products		
— Processing of rolled steel flat products	277,302	234,899
— Enclosure systems	39,986	5,609
Trading of industrial products		
— Engineering plastic resins and injection moulding machines	155,063	142,988
Stockholding and trading of construction materials		
— Steel products – rebars, structural steel and flat products	2,138,344	1,679,085
— Sanitary ware, tiles and kitchen cabinets	41,463	29,679
— Processed rebars	—	12,733
— Revenue from installation work of kitchen cabinets	99,795	26,317
Rental income	3,816	6,535
Total turnover	2,755,769	2,137,845
Interest income	4,887	2,720
Dividend income from a long-term investment	188	—
Return from a joint venture (i)	6,615	6,488
Total revenue	2,767,459	2,147,053

Note:

- (i) During the year ended 31st March 2003, the VSC Group received a return of approximately HK\$6,615,000 (2002: HK\$6,488,000) from a joint venture, which was written off in prior years.

5 OPERATING PROFIT

Operating profit is determined after charging or crediting the following items:

	2003 HK\$'000	2002 HK\$'000
After charging —		
Staff costs (including directors' emoluments) (see Note 6)	65,593	59,185
Operating lease rentals of premises	11,804	11,550
Provision for/Write-off of bad and doubtful accounts receivable	2,839	6,649
Provision for doubtful loans receivable	1,052	16,074
Provision for and write-off of inventories	2,963	3,276
Depreciation of property, plant and equipment	20,132	11,715
Amortisation of goodwill	1,850	924
Loss on disposal of a long-term investment	284	—
Net exchange loss	393	113
Auditors' remuneration	788	808
After crediting —		
Rental income from		
— related companies (see Note 3.a)	983	1,821
— third parties	2,833	4,714
Net gain on disposal of property, plant and equipment	51	389
Interest income from		
— bank deposits	203	816
— other deposits	1	1
— overdue accounts receivable	67	567
— amounts due from a related company (see Note 3.a)	4,616	1,336
Dividend income from a long-term investment	188	—

6 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

Staff costs consisted of:

	2003 HK\$'000	2002 HK\$'000
Salaries and allowances	57,519	52,854
Bonuses	6,000	5,030
Pension costs		
— defined contribution schemes (see Note 36)	2,489	2,163
— forfeited contribution	(415)	(862)
	65,593	59,185

7 FINANCE COST

Finance cost consisted of:

	2003 HK\$'000	2002 HK\$'000
Interest expense on		
— bank loans wholly repayable within five years	10,263	7,908
— other short-term loans wholly repayable within five years	881	—
	11,144	7,908

8 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

(a) Details of directors' emoluments were:

	2003 HK\$'000	2002 HK\$'000
Fees for executive directors	—	—
Fees for non-executive directors	519	320
Other emoluments for executive directors		
— Salaries and allowances	3,658	5,378
— Discretionary bonuses *	2,500	2,200
— Retirement contributions	72	61
	6,749	7,959

* The executive directors were entitled to discretionary bonuses which were determined with reference to the financial performance of the VSC Group.

8 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (Cont'd)

(a) Details of directors' emoluments were: (Cont'd)

In addition to the above-mentioned emoluments, the VSC Group provided a residential apartment (included in land and buildings) to an executive director for his residence, and the annual rateable value of the apartment amounting to approximately HK\$1,038,000 (2002: HK\$1,038,000).

No director waived any emolument during the year. No incentive payment for joining the VSC Group or compensation for loss of office was paid/payable to any directors during the year.

Analysis of directors' emoluments (including the rateable value of the apartment used as a director's residence) by number of directors and emolument ranges is as follows:

	2003	2002
Executive directors		
— Nil to HK\$1,000,000	4	2
— HK\$1,000,001 to HK\$1,500,000	1	1
— HK\$1,500,001 to HK\$2,000,000	1	2
— HK\$2,000,001 to HK\$2,500,000	—	1
— HK\$2,500,001 to HK\$3,000,000	1	—
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	7	6
Non-executive directors		
— Nil to HK\$1,000,000	5	4
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	12	10
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(b) The five individuals whose emoluments were the highest in the VSC Group for the year include three (2002: four) directors whose emoluments are reflected in the analysis presented in Note 8.a above. The emoluments paid/payable to the remaining individual were as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries and allowances	2,339	1,270
Retirement contributions	63	35
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	2,402	1,305
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9 TAXATION

Taxation consisted of:

	2003 HK\$'000	2002 HK\$'000
VSC and subsidiaries —		
Current taxation		
Hong Kong profits tax		
— Current year	4,080	2,773
— Overprovision in prior years	(5,097)	(425)
Mainland China enterprise income tax	3,181	232
Write-back of deferred taxation	—	(1,820)
	2,164	760

VSC is exempt from taxation in Bermuda until 2016.

Hong Kong profits tax has been provided at 16% (2002: 16%) on the estimated assessable profit arising in or derived from Hong Kong.

The subsidiaries established in Mainland China are subject to Mainland China enterprise income tax at rates ranging from 15% to 33% (2002: 15% to 33%). However, subsidiaries engaging in manufacturing are exempt from Mainland China enterprise income tax for two years starting from the first year of profitable operations after offsetting prior years' tax losses, followed by a 50% reduction for the next three years.

10 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a profit of approximately HK\$71,912,000 (2002: HK\$9,143,000) dealt with in the accounts of VSC.

11 DIVIDENDS

Dividends consisted of:

	2003 HK\$'000	2002 HK\$'000
Interim dividend of nil (2002: HK\$0.018) per ordinary share	—	6,390
Proposed final dividend of HK\$0.058 (2002: HK\$0.008) per ordinary share	18,111	2,840
	18,111	9,230

12 RETAINED PROFIT

Retained profit consisted of:

	2003 HK\$'000	2002 HK\$'000
VSC	7,786	7,102
Subsidiaries	108,535	120,035
Associates	(1,476)	(1,476)
	114,845	125,661

13 EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31st March 2003 is based on the consolidated profit attributable to shareholders of approximately HK\$60,412,000 (2002: HK\$10,110,000) and the weighted average number of approximately 347,859,000 shares (2002: 355,130,000 shares) in issue during the year.

The calculation of diluted earnings per share for the year ended 31st March 2003 is based on the consolidated profit attributable to shareholders of approximately HK\$60,412,000 (2002: HK\$10,110,000) and the diluted weighted average number of approximately 348,324,000 shares (2002: 356,091,000 shares) in issue after adjusting for the potential dilutive effect in respect of outstanding employee share options.

14 PROPERTY, PLANT AND EQUIPMENT

Movements of property, plant and equipment (consolidated) were:

	2003					2002	
	Land and buildings	Construction- in-progress	Furniture and equipment	Machinery	Motor vehicles	Total	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost							
Beginning of year	72,956	—	40,645	47,989	5,612	167,202	135,531
Additions	1,331	6,152	7,390	7,475	1,011	23,359	42,298
Attributable to acquisition of a business	—	—	—	—	—	—	8,851
Disposals	(514)	—	(37)	(1,953)	—	(2,504)	(19,311)
Attributable to disposal of a subsidiary	—	—	(91)	—	(142)	(233)	—
Translation adjustments	—	—	—	—	—	—	(167)
End of year	73,773	6,152	47,907	53,511	6,481	187,824	167,202
Accumulated depreciation and impairment loss							
Beginning of year	11,052	—	13,871	17,178	1,853	43,954	49,235
Provision for the year	2,223	—	12,734	4,141	1,034	20,132	11,715
Disposals	(62)	—	(11)	(1,953)	—	(2,026)	(17,280)
Attributable to disposal of a subsidiary	—	—	(9)	—	(16)	(25)	—
Translation adjustments	—	—	—	—	—	—	284
End of year	13,213	—	26,585	19,366	2,871	62,035	43,954
Net book value							
End of year	60,560	6,152	21,322	34,145	3,610	125,789	123,248
Beginning of year	61,904	—	26,774	30,811	3,759	123,248	86,296

14 PROPERTY, PLANT AND EQUIPMENT (Cont'd)

Details of the geographical locations and tenure of land and buildings (consolidated) were:

	2003 HK\$'000	2002 HK\$'000
Hong Kong		
— leases of between 10 to 50 years	15,845	16,214
— leases over 50 years	29,162	30,171
Mainland China		
— land use right of between 10 to 50 years	15,553	15,519
	60,560	61,904

15 INVESTMENT PROPERTIES

Movements of investment properties (consolidated) were:

	2003 HK\$'000	2002 HK\$'000
Beginning of year	32,500	31,340
(Deficit)/Surplus on revaluation	(1,500)	1,160
End of year	31,000	32,500

Details of the geographical locations and tenure of investment properties (consolidated) were:

	2003 HK\$'000	2002 HK\$'000
Hong Kong		
— leases of between 10 to 50 years	15,500	16,000
— leases of over 50 years	10,700	11,700
Mainland China		
— land use right over 50 years	4,800	4,800
	31,000	32,500

Investment properties were stated at open market value as at 31st March 2003 as determined by Jointgoal Surveyors Limited, independent qualified valuers.

15 INVESTMENT PROPERTIES (Cont'd)

The VSC Group leases out certain investment properties under operating leases, for an initial period of one to two years, with an option to renew on renegotiated terms. None of the leases includes contingent rentals. During the year ended 31st March 2003, the gross rental income from investment properties amounted to approximately HK\$2,143,000 (2002: HK\$2,589,000). As at 31st March 2003, the VSC Group's future rental income under non-cancellable operating leases was as follows:

	2003 HK\$'000	2002 HK\$'000
Not later than one year	1,347	2,322
Later than one year and not later than five years	48	1,357
	1,395	3,679

16 INVESTMENT IN SUBSIDIARIES

In VSC's balance sheet, investment in subsidiaries consisted of:

	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	71,746	71,746
Due from subsidiaries	280,400	328,939
	352,146	400,685

Approximately HK\$280,400,000 (2002: HK\$328,939,000) of the amounts due from subsidiaries are unsecured, non-interest bearing, and not repayable within one year. The amount due from a subsidiary of HK\$72,000,000 (2002: HK\$3,000,000), classified under current assets, is unsecured, non-interest bearing and has no pre-determined repayment terms.

The underlying value of the investment in subsidiaries is, in the opinion of VSC's Directors and the VSC Group's management, not less than the carrying value as at 31st March 2003.

16 INVESTMENT IN SUBSIDIARIES (Cont'd)

Details of the principal subsidiaries as at 31st March 2003 were:

Name	Place of incorporation and operations	Issued and fully paid share capital/ registered capital	Percentage of equity interest attributable to the VSC Group (i)	Principal activities
Dongguan Van Shung Chong Steel Products Co., Ltd. (iii)	Mainland China	HK\$23,000,000	100%	Processing of rolled steel flat products
Pulsar Enterprises Ltd.	British Virgin Islands/ Hong Kong	US\$2	100%	Property holding
Senior Rich Development Limited	Hong Kong	HK\$380 ordinary HK\$10,000 non-voting deferred (ii)	100% 100%	Property holding
Shanghai Bao Shun Chang International Trading Co., Ltd. (iii)	Mainland China	US\$600,000	66.7%	Trading and stockholding of steel
Shun Bao International Enterprise Limited	British Virgin Islands/ Hong Kong	US\$2	100%	Property holding
Tianjin Van Shung Chong Steel Products Co., Ltd. (iii)	Mainland China	HK\$11,700,000	100%	Processing of rolled steel flat products
Tomahawk Capital Limited	Hong Kong	HK\$10,000	100%	Finance business
Van Shung Chong (B.V.I.) Limited	British Virgin Islands	US\$6	100%	Investment holding

16 INVESTMENT IN SUBSIDIARIES (Cont'd)

Name	Place of incorporation and operations	Issued and fully paid share capital/ registered capital	Percentage of equity interest attributable to the VSC Group (i)	Principal activities
Van Shung Chong Hong Limited	Hong Kong	HK\$2,000 ordinary HK\$10,000,000 non-voting deferred (ii)	100% 100%	Trading and stockholding of steel and provision of management services
Vantage Godown Company Limited	Hong Kong	HK\$200,000	100%	Provision of warehousing services
VJY Telecommunication Equipment (Shenzhen) Company Limited (iii)	Mainland China	HK\$15,000,000	100%	Manufacture of enclosure systems
VSC (Beijing) Investment Ltd.	British Virgin Islands	US\$2	100%	Investment holding
VSC Building Products Company Limited	Hong Kong	HK\$2	100%	Trading of sanitary ware and kitchen cabinets and kitchen cabinet installation
VSC Energy Development Limited	British Virgin Islands/ Mainland China	US\$2	100%	Property holding
VSC Plastics Company Limited	Hong Kong	HK\$2	100%	Trading of plastics and injection moulding machines
VSC Property Holdings Limited	British Virgin Islands	US\$2	100%	Investment holding

16 INVESTMENT IN SUBSIDIARIES (Cont'd)

Name	Place of incorporation and operations	Issued and fully paid share capital/ registered capital	Percentage of equity interest attributable to the VSC Group (i)	Principal activities
VSC Steel Company Limited	Hong Kong	HK\$38,000 ordinary HK\$20,000,000 non-voting deferred (ii)	100% 100%	Trading and stockholding of steel
VSC Steel Products Company Limited	Hong Kong	HK\$2	100%	Trading of processed rolled steel flat products

Notes:

- (i) The shares of Van Shung Chong (B.V.I.) Limited are held directly by VSC. The shares of other subsidiaries are held indirectly.
- (ii) These non-voting deferred shares are owned by the VSC Group. The non-voting deferred shares have no voting rights, are not entitled to dividends, and are not entitled to any distributions upon winding up unless a sum of HK\$2,000,000,000 per share has been distributed to the holders of ordinary shares for Van Shung Chong Hong Limited or a sum of HK\$100,000,000,000,000 has been distributed to the holders of ordinary shares for VSC Steel Company Limited and Senior Rich Development Limited.
- (iii) Dongguan Van Shung Chong Steel Products Co., Ltd. is a contractual joint venture established in Mainland China with an operating period of 12 years to 2007. Shanghai Bao Shun Chang International Trading Co., Ltd. is an equity joint venture established in Mainland China with an operating period of 20 years to 2014. Tianjin Van Shung Chong Steel Products Co., Ltd. is a wholly foreign owned enterprise established in Mainland China with an operating period of 50 years to 2052. VJY Telecommunication Equipment (Shenzhen) Company Limited is a wholly foreign owned enterprise established in Mainland China with an operating period of 15 years to 2016.

The above summary lists the principal subsidiaries which principally affected the results or formed a substantial portion of the net assets of the VSC Group. To give details of other subsidiaries would, in the opinion of VSC's Directors and the VSC Group's management, result in particulars of excessive length.

None of the subsidiaries had any loan capital in issue at any time during the year ended 31st March 2003.

17 INVESTMENT IN ASSOCIATES

Investment in associates (consolidated) consisted of:

	2003 HK\$'000	2002 HK\$'000
Advance to an associate	12,534	12,534
Less: Provision for doubtful receivables	(12,532)	(12,532)
	<u>2</u>	<u>2</u>

The advance to an associate is unsecured, non-interest bearing and not repayable within one year.

Details of the associates as at 31st March 2003 were:

Name	Place of incorporation and operations	Issued and fully paid share capital	Percentage of equity interest held indirectly	Principal activity
Dongguan Luen Tung Harbour & Dock Co., Ltd. (i)	Mainland China	HK\$20,418,128	30%	Provision of pier services
Steel Supreme Limited	British Virgin Islands/ Mainland China	US\$100	30%	Provision of pier services

Note:

- (i) Dongguan Luen Tung Harbour & Dock Co., Ltd. is a contractual joint venture established in Mainland China with an operating period of 20 years to 2015.

The underlying value of the investment in associates is, in the opinion of VSC's Directors and the VSC Group's management, not less than the carrying value as at 31st March 2003.

18 LONG-TERM INVESTMENTS

Long-term investments (consolidated) consisted of:

	2003 HK\$'000	2002 HK\$'000
Investment in shares listed in Hong Kong		
At cost	42,438	42,722
Change in fair value	(27,206)	(15,680)
	15,232	27,042
Unlisted investments		
At cost	30,576	5,616
Accumulated impairment loss	(97)	(97)
	30,479	5,519
	45,711	32,561

As at 31st March 2003, the investment in shares listed in Hong Kong represents approximately 19.2% (2002: 17.8%) equity interests in iSteelAsia.com Limited, a company incorporated in Bermuda and whose shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. This investment was stated in the balance sheet at its quoted market value as at 31st March 2003.

19 GOODWILL

Movements of goodwill (consolidated) were:

	2003 HK\$'000	2002 HK\$'000
Cost		
Beginning of year	67,454	60,056
Acquisition of a business	—	7,398
End of year	67,454	67,454
Accumulated amortisation		
Beginning of year	60,980	60,056
Amortisation for the year	1,850	924
End of year	62,830	60,980
Net book value		
End of year	4,624	6,474
Beginning of year	6,474	—

20 INVENTORIES

Inventories (consolidated) consisted of steel rebars, H-piles, sheet piles, rolled steel flat products, enclosure systems, sanitary ware, kitchen cabinets, engineering plastic resins and machinery spare parts for trading purposes.

	2003 HK\$'000	2002 HK\$'000
Gross inventories	385,466	224,396
Less: Provision for obsolete and slow-moving inventories	(3,989)	(6,621)
	381,477	217,775

As at 31st March 2003, inventories of approximately HK\$52,874,000 (2002: HK\$12,616,000) were stated at net realisable value.

As at 31st March 2003, inventories of a subsidiary amounting to approximately HK\$14,950,000 (2002: HK\$8,505,000) were pledged as collaterals of certain of the VSC Group's short-term bank loans and certain inventories were held under trust receipts bank loan arrangements (see Notes 25 and 37).

21 GROSS AMOUNT DUE FROM/TO CUSTOMERS FOR INSTALLATION CONTRACT WORK

Gross amount due from customers for installation contract work (consolidated) consisted of:

	2003 HK\$'000	2002 HK\$'000
Costs plus recognised profits less foreseeable losses	98,010	21,105
Less: Progress billings received and receivable	(78,976)	(19,214)
	19,034	1,891

Gross amount due to customers for installation contract work (consolidated) consisted of:

	2003 HK\$'000	2002 HK\$'000
Costs plus recognised profits less foreseeable losses	21,539	—
Less: Progress billings received and receivable	(26,129)	—
	(4,590)	—

22 ACCOUNTS RECEIVABLE

A major portion of the VSC Group's turnover are transacted on an open account basis, with credit periods ranging from 30 to 90 days.

Ageing analysis of accounts receivable (consolidated) was as follows:

	2003 HK\$'000	2002 HK\$'000
0 to 60 days	416,753	358,439
61 to 120 days	151,048	93,837
121 to 180 days	42,336	17,281
181 to 365 days	43,175	3,616
Over 365 days	16,289	19,036
	669,601	492,209
Less: Provision for bad and doubtful receivables	(14,576)	(21,315)
	655,025	470,894

As at 31st March 2003, retentions from installation contract work of approximately HK\$5,265,000 (2002: HK\$920,000) were included in accounts receivable, which were not paid until the satisfaction of conditions specified in the contracts for the payment of such amounts.

23 LOANS RECEIVABLE

Loans receivable (consolidated) consisted of:

	2003 HK\$'000	2002 HK\$'000
Cost	32,939	35,839
Less: Provision for doubtful loans receivable	(26,048)	(24,996)
	6,891	10,843

Loans receivable bore interest at rates of Hong Kong Inter-bank Offer Rate ("HIBOR") plus 3% or 30% per annum (2002: HIBOR plus 3% or 30% per annum).

24 CASH AND BANK DEPOSITS

As at 31st March 2003, approximately HK\$32,423,000 (2002: HK\$25,935,000) of the VSC Group's cash and bank deposits, including pledged bank deposit, were denominated in Chinese Renminbi, a currency which is not freely convertible into other currencies.

25 SHORT-TERM BORROWINGS

Short-term borrowings (consolidated) consisted of:

	2003 HK\$'000	2002 HK\$'000
Bank loans		
— Trust receipts bank loans	490,879	225,182
— Short-term bank loans	59,063	37,800
— Long-term bank loan, current portion (see Note 27)	2,925	—
	552,867	262,982
Other loans	37,800	—
	590,667	262,982

Details of the VSC Group's banking facilities are set out in Note 37.

Other loans represented short-term loans from a minority shareholder of a subsidiary and a company relating to the minority shareholder. These loans are unsecured and bear interest at 5.04% to 5.54% per annum.

26 ACCOUNTS AND BILLS PAYABLE

Ageing analysis of accounts and bills payable (consolidated) was as follows:

	2003 HK\$'000	2002 HK\$'000
0 to 60 days	196,722	145,288
61 to 120 days	6,042	1,920
121 to 180 days	2,235	1,761
181 to 365 days	1,982	1,000
Over 365 days	5,039	2,602
	212,020	152,571

27 LONG-TERM BANK LOAN

Long-term bank loan (consolidated) consisted of:

	2003 HK\$'000	2002 HK\$'000
Amounts repayable		
— within one year	2,925	—
— within one to two years	11,700	—
— within two to three years	8,775	—
	23,400	—
Less: Amount due within one year included under current liabilities (see Note 25)	(2,925)	—
	20,475	—

Details of the VSC Group's banking facilities are set out in Note 37.

28 DEFERRED TAXATION

Movements of deferred taxation (consolidated) were:

	2003 HK\$'000	2002 HK\$'000
Beginning of year	250	2,070
Write-back of net timing differences	—	(1,820)
End of year	250	250

Deferred taxation represented the taxation effect of accelerated depreciation of property, plant and equipment for taxation purposes.

There was no significant unprovided deferred taxation as at 31st March 2003. No deferred tax on the asset revaluation reserve has been provided because the revaluations do not constitute a timing difference as the VSC Group intends to hold the related assets for long term.

29 SHARE CAPITAL

Movements were:

	2003		2002	
	Number of shares '000	Nominal value HK\$'000	Number of shares '000	Nominal value HK\$'000
Authorised (Ordinary shares of HK\$0.10 each)	1,000,000	100,000	1,000,000	100,000
Issued and fully paid (Ordinary shares of HK\$0.10 each):				
Beginning of year	354,979	35,498	355,288	35,529
Issue of shares upon exercise of warrants (see Note 30)	—	—	1	—
Issue of shares upon exercise of employee share options (see Note 31)	10,500	1,050	—	—
Repurchase of shares (i)	(53,222)	(5,322)	(310)	(31)
End of year	312,257	31,226	354,979	35,498

Note:

- (i) During the year ended 31st March 2003, VSC repurchased 53,222,263 shares (2002: 310,000 shares) for an aggregate consideration of approximately HK\$53,117,000 (2002: HK\$307,000), including transaction costs. These shares were subsequently cancelled. The aggregate cost for the repurchase of shares was transferred from retained profit to capital redemption reserve. Details of such repurchases during the year ended 31st March 2003 were as follows:

Month of repurchase	Number of shares repurchased '000	Price per share	Amount paid HK\$'000
January 2003	<u>53,222</u>	HK\$0.98	52,158
Transaction costs			<u>959</u>
			<u>53,117</u>

30 WARRANTS

Movements of warrants were:

Date of issue	Exercise period	Exercise price per share	Number of warrants		
			Beginning of year '000	Exercised '000	End of year '000
12th November 2001	19th November 2001 to 18th November 2004	HK\$1.18	35,497	—	35,497

During the year ended 31st March 2003, approximately 120 warrants (2002: 1,000 warrants) were exercised to subscribe for approximately 120 shares (2002: 1,000 shares) of VSC at a consideration of approximately HK\$142 (2002: HK\$1,180).

31 EMPLOYEE SHARE OPTIONS

VSC had an employee share option scheme (the “Old Share Option Scheme”), under which it may grant options to employees (including executive directors) of the VSC Group to subscribe for shares in VSC, subject to a maximum of 10% of the nominal value of the issued share capital of VSC from time to time, excluding for this purpose shares issued on the exercise of options. The exercise price was to be determined by VSC’s board of directors, and was not less than the higher of the nominal value of the shares and 80% of the average of the closing prices of VSC’s shares quoted on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of offer of the options.

Following the amendment of the Listing Rules, during the year ended 31st March 2002, VSC adopted a new share option scheme (the “New Share Option Scheme”) to replace the Old Share Option Scheme. However, all options granted prior to the adoption of the New Share Option Scheme shall continue to be exercisable in accordance with the terms of the Old Share Option Scheme. Under the New Share Option Scheme, VSC may grant options to any person being an employee, agent, consultant or representative (including executive directors and non-executive directors) of the VSC Group to subscribe for shares in VSC, subject to a maximum of 30% of the nominal value of the issued share capital of VSC from time to time, excluding for this purpose shares issued on the exercise of options. The exercise price will be determined by VSC’s board of directors and shall be at least the highest of (i) the closing price of VSC’s shares quoted on The Stock Exchange of Hong Kong Limited on the date of grant of the options, (ii) the average closing prices of VSC’s shares quoted on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of grant of the options, and (iii) the nominal value of VSC’s shares of HK\$0.10 each.

31 EMPLOYEE SHARE OPTIONS (Cont'd)

Movements of employee share options were:

Date of grant	Exercise period	Exercise price per share	Number of employee share options				End of year
			Beginning of year	Granted	Exercised	Lapsed	
			'000	'000	'000	'000	'000
Old Share Option Scheme							
3rd March 1994	1st April 1996 to 31st March 2003	HK\$0.9360	6,000	—	—	(6,000)	—
17th December 1994	15th January 1997 to 15th January 2004	HK\$1.1344	6,500	—	—	—	6,500
18th January 1996	15th January 1997 to 15th January 2004	HK\$1.2528	4,000	—	—	—	4,000
18th March 1996	1st May 1998 to 22nd January 2004	HK\$1.3840	3,300	—	—	—	3,300
10th January 2000	1st February 2002 to 22nd January 2004	HK\$1.6880	1,100	—	—	(200)	900
New Share Option Scheme							
10th September 2002	10th September 2002 to 9th September 2012	HK\$0.4000	—	4,000	(4,000)	—	—
30th September 2002	30th September 2002 to 29th September 2012	HK\$0.3900	—	6,500	(6,500)	—	—
			20,900	10,500	(10,500)	(6,200)	14,700

32 RESERVES

Movements were:

	Consolidated								
	Share premium HK\$'000	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Asset revaluation reserve HK\$'000	Other reserves HK\$'000	Cumulative foreign currency translation adjustments HK\$'000	Retained profit HK\$'000	Proposed dividends HK\$'000	Total HK\$'000
As at 1st April 2001	281,570	22,811	58,355	53,701	301	(2,313)	125,088	81,716	621,229
Profit attributable to shareholders	—	—	—	—	—	—	10,110	—	10,110
Premium arising from issue of shares upon exercise of warrants (see Note 30)	1	—	—	—	—	—	—	—	1
Repurchase of shares (see Note 29)	(276)	307	—	—	—	—	(307)	—	(276)
Change in fair value of long-term investments	—	—	—	(54,773)	—	—	—	—	(54,773)
Proposed dividends									
— interim dividend	—	—	—	—	—	—	(6,390)	6,390	—
— final dividend	—	—	—	—	—	—	(2,840)	2,840	—
Dividends paid	—	—	—	—	—	—	—	(88,106)	(88,106)
Translation adjustments	—	—	—	—	—	(373)	—	—	(373)
As at 31st March 2002	281,295	23,118	58,355	(1,072)	301	(2,686)	125,661	2,840	487,812
Profit attributable to shareholders	—	—	—	—	—	—	60,412	—	60,412
Premium arising from issue of shares upon exercise of warrants and employee share options (see Notes 30 & 31)	3,085	—	—	—	—	—	—	—	3,085
Repurchase of shares (see Note 29)	(47,795)	53,117	—	—	—	—	(53,117)	—	(47,795)
Change in fair value of long-term investments	—	—	—	(12,089)	—	—	—	—	(12,089)
Release upon disposal of a long-term investment	—	—	—	563	—	—	—	—	563
Proposed final dividend	—	—	—	—	—	—	(18,111)	18,111	—
Dividends paid	—	—	—	—	—	—	—	(2,840)	(2,840)
Translation adjustments	—	—	—	—	—	30	—	—	30
As at 31st March 2003	236,585	76,235	58,355	(12,598)	301	(2,656)	114,845	18,111	489,178

32 RESERVES (Cont'd)

	Company					
	Share premium <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Retained profit <i>HK\$'000</i>	Proposed dividends <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1st April 2001	281,570	22,811	53,986	7,496	81,716	447,579
Profit for the year	—	—	—	9,143	—	9,143
Premium arising from issue of shares upon exercise of warrants (see Note 30)	1	—	—	—	—	1
Repurchase of shares (see Note 29)	(276)	307	—	(307)	—	(276)
Proposed dividends						
— interim dividend	—	—	—	(6,390)	6,390	—
— final dividend	—	—	—	(2,840)	2,840	—
Dividends paid	—	—	—	—	(88,106)	(88,106)
As at 31st March 2002	281,295	23,118	53,986	7,102	2,840	368,341
Profit for the year	—	—	—	71,912	—	71,912
Premium arising from issue of shares upon exercise of warrants and employee share options (see Notes 30 & 31)	3,085	—	—	—	—	3,085
Repurchase of shares (see Note 29)	(47,795)	53,117	—	(53,117)	—	(47,795)
Proposed final dividend	—	—	—	(18,111)	18,111	—
Dividends paid	—	—	—	—	(2,840)	(2,840)
As at 31st March 2003	236,585	76,235	53,986	7,786	18,111	392,703

Under the Companies Act 1981 of Bermuda, contributed surplus is distributable to shareholders subject to the condition that VSC cannot declare or pay a dividend, or make a distribution out of contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

33 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

- (a) Reconciliation of profit before taxation to net cash inflow generated from operation was as follows:

	2003 HK\$'000	2002 HK\$'000
Profit before taxation	65,905	11,892
Interest income	(4,887)	(2,720)
Interest expense	11,144	7,908
Dividend income	(188)	—
Return from a joint venture	(6,615)	(6,488)
Depreciation of property, plant and equipment	20,132	11,715
Loss on disposal of a long-term investment	284	—
Impairment loss on investment	—	97
Amortisation of goodwill	1,850	924
Share of loss of associates	—	88
Deficit/(Surplus) on revaluation of investment properties	1,500	(1,160)
Net gain on disposal of property, plant and equipment	(51)	(389)
(Increase)/Decrease in inventories	(164,778)	24,269
Increase in gross amount due from customers for installation contract work	(17,143)	(975)
(Increase)/Decrease in prepayments, deposits and other receivables	(42,949)	3,865
Increase in accounts receivable	(186,362)	(115,016)
Decrease in loans receivable	3,952	17,566
Increase in trust receipts bank loans	265,697	135,692
Increase in accounts and bills payable	59,547	43,226
Increase/(Decrease) in receipts in advance	23,707	(2,840)
(Decrease)/Increase in accrued liabilities and other payables	(6,042)	2,487
Increase in gross amount due to customers for installation contract work	4,590	—
Net cash inflow generated from operation	29,293	130,141

33 NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

- (b) During the year ended 31st March 2003, the VSC Group disposed of its interest in a subsidiary for a consideration of approximately HK\$5,597,000. Details of the net assets of the subsidiary as at the date of disposal were:

	<i>HK\$'000</i>
Property, plant and equipment	208
Inventories	1,076
Prepayments, deposits and other receivables	2,909
Accounts receivable	2,231
Cash and bank deposits	2,124
Accounts payable	(98)
Taxation payable	(18)
Minority interests	(2,835)
	<hr/>
Net assets disposed of	5,597
	<hr/> <hr/>

Analysis of net cash inflow in respect of disposal of the subsidiary was as follows:

	<i>HK\$'000</i>
Consideration for the disposal	5,597
Less:	
Consideration receivable as at 31st March 2003	(3,003)
Cash and bank deposits disposed of	(2,124)
	<hr/>
Net cash inflow	470
	<hr/> <hr/>

The subsidiary disposed of during the year contributed approximately HK\$3,722,000 cash outflow from operating activities, approximately HK\$34,000 cash outflow from investing activities and approximately HK\$5,276,000 cash inflow from financing activities.

33 NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

(c) Analysis of changes in financing:

	Share capital and share premium <i>HK\$'000</i>	Bank loans <i>HK\$'000</i>	Other short-term loans <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>
As at 1st April 2001	317,099	17,280	—	2,921
Issue of shares upon exercise of warrants	1	—	—	—
Repurchase of shares	(307)	—	—	—
New bank loans	—	56,700	—	—
Repayment of bank loans	—	(36,180)	—	—
Share of profit by minority shareholders of subsidiaries	—	—	—	1,022
Dividends paid to a minority shareholder of a subsidiary	—	—	—	(315)
Capital contribution by minority shareholders of a subsidiary	—	—	—	945
As at 31st March 2002	316,793	37,800	—	4,573
Issue of shares upon exercise of warrants and employee share options	4,135	—	—	—
Repurchase of shares	(53,117)	—	—	—
New loans	—	47,025	37,800	—
Repayment of loans	—	(2,362)	—	—
Share of profit by minority shareholders of subsidiaries	—	—	—	3,329
Dividends paid to a minority shareholder of a subsidiary	—	—	—	(258)
Capital contribution by minority shareholders of a subsidiary	—	—	—	3,583
Acquisition of additional interests in a subsidiary	—	—	—	(1,890)
Disposal of a subsidiary	—	—	—	(2,835)
As at 31st March 2003	267,811	82,463	37,800	6,502

(d) Cash and cash equivalents:

Cash and cash equivalents represent cash and bank deposits of approximately HK\$69,631,000 as at 31st March 2003 (2002: HK\$48,554,000).

34 SEGMENT INFORMATION

The VSC Group operates predominantly in Hong Kong and Mainland China and in two business segments — (i) China Advanced Materials Processing including manufacturing of industrial products such as rolled steel flat products and enclosure systems, and trading of industrial products such as engineering plastic resins and injection moulding machines, and (ii) Construction Materials Group including trading and stockholding of construction materials such as steel products, sanitary ware and kitchen cabinets and the installation work of kitchen cabinets.

(a) Primary segment

Analysis of the VSC Group's results by business segment was as follows:

	2003			
	China Advanced Materials Processing HK\$'000	Construction Materials Group HK\$'000	Other operations HK\$'000	Total HK\$'000
Turnover				
Sales to external customers	472,351	2,279,602	3,816	2,755,769
Segment result	59,251	65,644	329	125,224
Other revenue	384	90	11,216	11,690
Deficit on revaluation of investment properties	—	—	(1,500)	(1,500)
Unallocated corporate expenses				(58,365)
Operating profit				77,049
Finance cost				(11,144)
Taxation				(2,164)
Profit after taxation but before minority interests				63,741
Assets	426,479	890,340	101,885	1,418,704
Liabilities	60,067	826,273	5,458	891,798
Capital expenditures	18,288	5,053	24,978	48,319
Depreciation and amortisation	6,359	14,655	968	21,982

34 SEGMENT INFORMATION (Cont'd)

(a) Primary segment (Cont'd)

	2002			
	China Advanced Materials Processing HK\$'000	Construction Materials Group HK\$'000	Other operations HK\$'000	Total HK\$'000
Turnover				
Sales to external customers	383,496	1,747,814	6,535	2,137,845
Segment result	37,316	28,890	(13,479)	52,727
Other revenue	350	195	8,663	9,208
Surplus on revaluation of investment properties	—	—	1,160	1,160
Unallocated corporate expenses				(43,207)
Operating profit				19,888
Finance cost				(7,908)
Share of loss of associates				(88)
Taxation				(760)
Profit after taxation but before minority interests				11,132
Assets	229,794	699,756	56,636	986,186
Liabilities	28,949	427,367	1,987	458,303
Capital expenditures	42,457	19,563	—	62,020
Depreciation and amortisation	4,690	7,580	369	12,639

34 SEGMENT INFORMATION (Cont'd)**(b) Secondary segment**

Analysis of the VSC Group's results by geographical segment was as follows:

	2003	
	Hong Kong	Mainland China
	HK\$'000	HK\$'000
		Total
		HK\$'000
Turnover	1,278,915	1,476,854
		2,755,769
Segment result	52,270	72,954
		125,224
Other revenue	4,610	7,080
		11,690
Deficit on revaluation of investment properties	(1,500)	—
		(1,500)
Unallocated corporate expenses		(58,365)
		77,049
Operating profit		77,049
Assets	564,458	854,246
		1,418,704
Capital expenditures	4,553	43,766
		48,319
	2002	
	Hong Kong	Mainland China
	HK\$'000	HK\$'000
		Total
		HK\$'000
Turnover	1,099,641	1,038,204
		2,137,845
Segment result	13,157	39,570
		52,727
Other revenue	2,306	6,902
		9,208
Surplus on revaluation of investment properties	1,000	160
		1,160
Unallocated corporate expenses		(43,207)
		19,888
Operating profit		19,888
Assets	637,601	348,585
		986,186
Capital expenditures	18,758	43,262
		62,020

35 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

The VSC Group had the following capital commitments (consolidated) which have not been provided in the accounts:

	2003 HK\$'000	2002 HK\$'000
Authorised and contracted for		
— Purchase of machinery and equipment	2,508	6,365
— Construction-in-progress	1,273	—
	<u>3,781</u>	<u>6,365</u>
Authorised and but contracted for		
— Purchase of machinery and equipment	—	949
— Leasehold improvements	347	—
	<u>347</u>	<u>949</u>
	<u>4,128</u>	<u>7,314</u>

(b) Operating lease commitments

Total commitments payable under various non-cancellable operating lease agreements in respect of rented premises (consolidated) was analysed as follows:

	2003 HK\$'000	2002 HK\$'000
Not later than one year	5,980	10,589
Later than two years and not later than five years	6,024	14,018
	<u>12,004</u>	<u>24,607</u>

35 COMMITMENTS AND CONTINGENT LIABILITIES (Cont'd)**(c) Contingent liabilities**

Contingent liabilities not provided for in the accounts were:

	Consolidated		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantee in lieu of rental deposit of a premise	2,744	2,744	—	—
Performance bonds	13,630	13,412	—	—
Guarantee relating to a bank loan granted to an investee company	2,340	2,340	—	—
Guarantees provided by VSC in respect of banking facilities of its subsidiaries	—	—	1,454,131	1,303,130
	18,714	18,496	1,454,131	1,303,130

36 PENSION SCHEMES

The VSC Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the VSC Group and its employees make monthly contributions to the scheme generally at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation.

As stipulated by rules and regulations in Mainland China, the VSC Group contributes to state-sponsored retirement plans for employees of its subsidiaries established in Mainland China. The employees contribute up to 8% of their basic salaries, while the VSC Group contributes approximately 14% to 20% of such salaries and has no further obligations for the actual payment of pensions or post-retirement benefits beyond these contributions. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees.

During the year ended 31st March 2003, the aggregate amount of the VSC Group's contributions to the aforementioned pension schemes was approximately HK\$2,489,000 (2002: HK\$2,163,000).

37 BANKING FACILITIES AND PLEDGE OF ASSETS

As at 31st March 2003, the VSC Group had aggregate banking facilities of approximately HK\$1,533,416,000 (2002: HK\$1,332,860,000) for overdrafts, loans, and trade financing. These facilities were secured by:

- (i) pledge of bank deposit and inventories of certain subsidiaries and the VSC Group's inventories held under trust receipts bank loan arrangements (see Notes 20 and 25); and
- (ii) guarantees provided by VSC (see Note 35.c).

38 ULTIMATE HOLDING COMPANY

VSC's Directors consider Huge Top Industrial Ltd., a company incorporated in the British Virgin Islands, to be VSC's ultimate holding company.

39 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 10th June 2003.