CHAIRMAN'S STATEMENT

Van Shung Chong Holdings Limited ("VSC") and its subsidiaries (together the "VSC Group") were founded on a set of principles laid down more than four decades ago. These principles helped shape the structure, management, people, and products that make up the company today, and are largely responsible for the success VSC has enjoyed in broadening its scope and market share in Hong Kong and Mainland China.

Today, however, a quickly changing business environment, and indeed a basic change in the way business is done, is driving this organisation to rethink, reshape, and adapt so that we may continue creating shareholders' value into the future.

To do so, we believe it is the right time for VSC to retire its founding principles and adopt a new mantra. This new mantra is one that embraces positive change throughout the organisation, from the shop floor to the sales field, and seeks to guide the company toward a more dynamic future.

That said, in a few years VSC will look very different from the VSC of today:

- It will be a company with substantial business interests in Mainland China;
- It will be increasingly customer-focused;
- It will add increasing levels of value to the supply chain management process; and
- Its product scope will broaden to take advantage of high-growth industries that are complementary to our existing core competencies.

These are the core themes we are pursuing today. In fact, we have already made the necessary commitments and investments both internally and externally to move toward realising this vision, and have had some early pleasing successes.

PROCESS IMPROVEMENT PROGRAM

For instance, we incorporated Total Cycle Time practices into our business processes across all operating groups and across all business functions. This process has already resulted in significant productivity gains and cost savings, but has also resulted in a more integrated corporate strategy, improved customer service, and higher employee morale.

Financially, with the advice from our process improvement consultants, these measures are expected to contribute over HK$50 million to our Net Profit Before Tax and result in a further double-digit reduction in stock levels across all operating units.

STOCKHOLDING IN HONG KONG...PROCESSING AND EXPANDING IN MAINLAND CHINA

While our traditional markets in Hong Kong remain important, we have made significant progress toward increasing our presence in Mainland China, as well as broadening our product scope to take advantage of high-growth sectors.

Specifically, we recently completed the second phase of our expansion plans for the Dongguan Coil Centre. This expansion improves capacity by 50% to meet increasing demand from our core base of Mainland China manufacturers of white goods, consumer electronics, and audio and video equipment.

With the acceleration of national economic growth and policies to expand domestic demand - disposable income increased 6.4% among urban households last year - we are optimistic for continued improvement for this business in Mainland China.

Moving beyond coil centre products, we are also seeking new markets for value-added steel products, and have targeted Mainland China's expanding telecommunications and IT sectors as key growth drivers. As Mainland China modernises, investment in telecommunications infrastructure will increase and create further demand for steel products, such as equipment casings, stacking systems and other network support products.

Shanghai alone has vowed to maintain an annual growth rate of 30% in the coming five years to expand its electronics and information industry. The focus will be on systems integration, production automation, intelligentisation of products and production technology networking. The effect, in part, will be increased investments in renovating and upgrading MIS systems, telecommunications and network technologies.

Similar efforts are underway in Tianjin, where authorities have paved the way for the development of a high-tech industry and have created an electronics and information industry that will generate RMB73 billion in product value this year, up 26% from last year.

To tap this segment of the market, we recently invested in Van Jia Yuan, an enclosure systems manufacturer that already has a strong base of customers using its steel casings for telecommunications and IT applications. Our strategy with this new acquisition is to streamline the plant's operations, and then create value-added services for customers so that they can be more competitive in serving end users.

It is our intent to utilise both the Coil Centre operation and the new Van Jia Yuan acquisition as cornerstones for future investments in Mainland China. From this base, we will also be in a better position to forecast and analyse longer-term business opportunities that may be created by Mainland China's imminent accession into the World Trade Organisation.

As for the steel industry in Mainland China, steps are being implemented to reduce steel production, despite increased demand, and thus stabilise steel pricing. Domestic demand is expected to increase by up to 6% this year, as the government continues to invest in infrastructure and in support of its "Go West" campaign.

With the Central Government's current mandate to develop the western part of China, the VSC Group believes that this effort will no doubt be the engine to propel the domestic economic growth for the coming years. As a result of the "Go West" campaign, additional demand for consumables (like white goods, automobiles, etc.) and infrastructure (roads, telecommunications, etc.) will be generated as wealth and resources are deployed to develop the region.

As mentioned earlier, we live in a dynamic world, and despite the old traditions engrained into the steel industry, there are ample opportunities for change. The VSC Group has taken the recent downturn in the industry to rationalise its strategy going forward, and believes that the process closest to the consumers represents the highest margin and hence, better returns on capital investment. In this, we mean for example in a typical steel product like computer casings, the highest margin is not in the blast furnace or ingots stage. Instead it is in the processing of steel coils before delivery to the computer manufacturers.

Capitalising on the VSC Group's successful effort in turning around its coil centre business in Dongguan, we believe that we are well positioned to explore opportunities in the fast growing higher margin steel processing business in Mainland China, which are currently highly fragmented and plagued with quality problems.

Finally, we are confident that our investment, iSteelAsia.com Limited ("iSA"), will achieve critical mass in the very near future and will be the clear winner in its e-enabling efforts of the steel trading industry in Mainland China and South East Asia. The business model is sound, and the continued growth rate in transactions, volume, deal postings, membership, and commission revenue combine to reinforce the company's value proposition and business strategy.

FINANCIAL PERFORMANCE SUMMARY

There is little argument that the last 12 months had been a challenging period for the steel industry. This is due to several factors, but namely to oversupply and depressed construction markets in most economies around the world.

For the year under review, the VSC Group achieved turnover of HK$2.376 billion versus HK$1.901 billion the previous year, an increase of 25.0%; however, gross profit and gross margin decreased 7.3% and 25.8%, respectively, which underscores the challenging operating environment our company faced over the last year.

Profit from continuing operations decreased 34.6%, from HK$138 million in the previous year to HK$90 million in this reporting period. Profit attributable to shareholders, however, increased 243% to HK$311 million, primarily due to the exceptional one-time gain resulting from the spin-off of iSA.

The operating environment does not show signs of improving in the near term, as it is widely anticipated that Asia will begin to see "trade diversion" activity as a result of investigations by the United States into illegal dumping. This will force many producers to look for other markets, which means increased supply to China and South East Asia, thus further eroding prices.

To address this challenge, we will further improve our supply chain management by developing better relationships with selected steel mills to achieve better on-time delivery, shorter lead time, and higher quality product, which in turn will lead to improved turnover and margins.

DIVIDEND

Historically, our company has adopted a cash dividend payout policy of approximately 30% of the profit attributable to shareholders. We are pleased to report, due to the exceptional one-time gain of HK$361 million through the spin-off of iSA, after prudent consideration of the VSC Group's future capital requirements and plans, we have decided to reward the loyalty of our shareholders by declaring a final cash dividend of 23.0 cents per share. Combined with the interim cash dividend of 3.0 cents per share, the total cash dividend for the year is 26.0 cents per share. This represents a cash dividend payout over profit attributable to shareholders ratio of 29.7%, against a ratio of 33.1% in the previous financial year. Moreover, a distribution in specie of shares in iSA worth HK$308 million was also made to shareholders upon the spin-off of iSA.

VSC - VISION, STRATEGY, AND COMMITMENT

As readers will see, we have chosen to temporarily interpret the meaning of VSC in this year's annual report to stand for **Vision, Strategy, and Commitment**. These three words help embody the new direction in which our company has embarked in order to become more dynamic, more focused, and increasingly important to our customers and more sensitive to value enhancements for the VSC Group's capital.

I wish to thank our dedicated employees for embracing this change of mantra, and for striving for excellence and continuous improvement. I also wish to thank the board for their continued guidance and support.

Andrew Yao

Chairman