



CHAIRMAN'S STATEMENT

Dear Shareholders,

Our vision is to become “the best total solution provider of materials in China through global supply chain management and value-added processing”. During the last decade, VSC has successfully revolutionised itself to a China focused industrial steel service provider from a purely Hong Kong based steel trader. Adhering to our vision through determination and integrity, we managed to weather the hardships in 1997, when the Hong Kong property market slumped, the Asian financial crisis in 1998 and the global economic recession in 2000. Armed with our faith and flexibility, VSC has become a solid growth company ready to capture the world's fastest developing economy - China.

I am glad to report another strong financial performance year for VSC. Leveraging on our strong global supplier network and mutually beneficial customer relationships, our consolidated turnover grew 29% over the previous year to reach over HK\$3.5 billion. Profit attributable to shareholders also rose 34% to HK\$81 million.

THINK GLOBAL, ACT LOCAL

China is the world's largest steel importer, consumer and producer accounting for one-fifth of the world's total steel sales. Shanghai is the centre for information, capital, human resources and steel usage. As such, the VSC Group has chosen Shanghai as our China headquarters in May 2003.

SYNERGISTIC BUSINESS MODEL

Our business model comprises of two main business divisions: China Advanced Materials Processing (“CAMP”) and Construction Materials Group (“CMG”).

CAMP

The CAMP business provides value-added, quality and efficient steel processing service targeting high growth industries, namely information technology, home appliance and automobile parts. CAMP is a downstream, solution provider for customers, working closely and directly with OEM manufacturers and has built a strong end user network where demand is recurrent, more forecastable and expanding.

Our chain of steel service centres are strategically located throughout industrial hubs of China where there are thousands of production plants set up by both local and international manufacturers. For example, the Kelon Group has fully taken advantage of our service centre network by sourcing from our Tianjin and Guangdong operations, demonstrating our flexibility in addressing the needs of their different manufacturing facilities. Our proximity to our customers in different locations also allows them to enjoy economies of scale. Furthermore, having worked with Huawei Technologies Co., Ltd. for three years, we have proudly elevated to one of its top three largest suppliers of steel enclosure system.

To further strengthen our service network and market position, we entered into a joint venture with Shinsho Corporation, the trading arm of a major Japanese steel producer, Kobe Steel, in March 2004, at Huangpu of Guangzhou. It is the sixth steel service centre that we have invested in China. All the aforementioned developments require technological commitment, network connectivity of an enterprise approach and product expertise which few steel service centres in China are able to offer.

Chairman's Statement

CMG

CMG is an intricate division within the VSC Group as it is the material manager in the upstream raw materials procurement part in the supply chain. Our long established and sound relationships with steel mills worldwide guarantee us supply of many kinds of quality steel, which is crucial in times of shortage. CMG has also set up a team of engineering experts to provide professional consultancy service and brought into China advanced construction technologies. In July 2003, for instance, VSC introduced a leading environmentally friendly piling technology from Japan for a hospital project in a residential area in Shanghai. Seminars and workshops were held to raise awareness environmental and social responsibilities, thus in the long run, raising the living standards of people there.

As a leading construction materials distributor in Hong Kong, CMG has further expanded its coverage to southern China market and Shanghai, capturing the flourishing infrastructure and construction markets there.

OUR SOLUTIONS STRENGTHEN CUSTOMER RELATIONSHIPS

Both CAMP and CMG are direct or indirect suppliers to manufacturers of the world. VSC prides our knowledge and experience in the PRC. The VSC Group has focused on high value customers and engineered solutions. CAMP and CMG, together, position the VSC Group in the significant part in the supply chain bridging the end users and the steel producers through global network, integrated supply chain management, just-in-time delivery, value-added processing and consultancy service.

As the PRC is a vast country, different parts of the country bear significantly different characteristics. For example, customer demands in southern China are export oriented, thus extremely sensitive to on-time delivery, supply chain management and quality; whereas eastern China houses many multi-nationals which focus on technological and the growing domestic PRC market; while northern China is home to many State-owned enterprises, where established personal and corporate relationships take precedent. Due to the diversity of customer base, it is imperative to maintain flexibilities in adapting the VSC Group's network to our advantage which will enhance our value proposition to the customer well beyond a simple supplier level.

PROSPECTS

In the coming year, one of our major tasks is to maximise the synergetic effects brought by the VSC Group's two complementary business divisions to provide integrated service along the value chain and supply chain. Such vertical integration has greatly strengthened our position and maintained the VSC Group's profit margin.

STRENGTHEN VERTICALLY INTEGRATED VALUE-ADDED SERVICE

We believe that product quality and service are the key criteria of customers' choice. VSC can be differentiated from other steel service providers in the PRC through the provision of comprehensive and integrated value-added service and scalable operation.

In addition to procurement aspects of supply chain management, we will continue to play a more important role in the value chain by extending our services by providing more comprehensive, efficient processing service to add value to our customers.

A group of people are rowing a traditional outrigger canoe on the ocean. The canoe is long and narrow, with a central hull and two outrigger hulls on either side, connected by a wooden crossbar. The rowers are shirtless and wearing dark shorts, and they are using long wooden oars to propel the canoe forward. The water is a deep blue color with white foam from the oars. The sun is low in the sky, creating a golden glow on the water's surface. The overall scene is one of teamwork and traditional maritime culture.

PEOPLE
IS OUR
RESOURCES



REINFORCE OPERATION STRUCTURE

VSC aims to expand its service centre network by increasing one centre a year by way of either through mergers and acquisitions or building a greenfield facility. This year, we have already added Tianjin and Guangzhou coil centres serving our well-known consumer electronics and automotive brands. Eastern China will be our next target. Our focus is to strengthen the established operations and maximise capacity through enterprise approach. We will also continue to explore other growth opportunities to enlarge market share in the burgeoning economy.

GOING FORWARD

In 2003, the PRC achieved an impressive economic growth of 9.1%. The trend went up further and reached 9.7% in the first quarter of 2004. The robust economy boosted corporate investment and consumer spending triggering the demand for basic raw materials such as iron, steel, aluminium, etc. All raw material prices went up vigorously to nearly historical high and attracted opportunistic speculators who threatened the fundamental development of those industries and also the PRC economy as a whole.

China consumed approximately 220 million metric tonnes of steel in 2003. A further increase of 11% to 245 million metric tonnes is forecasted for 2004. China is the largest steel producer, consumer and importer in the world, maintaining its role as the factory of the world and source of many large scale, infrastructure projects. According to a report of China Steel Industry Association (中國鋼鐵工業協會) issued in September 2003, the six largest steel consumption industries in China in 2002 were construction (53.70%), machinery (14.03%), automobile (4.64%), railway (1.53%), oil and gas (1.48%) and home appliance (2.32%), accounted for an aggregate of about 80% of total consumption.

In view of the recent rampant capital spending, the PRC central government has taken mitigating measures, such as raising interest rate and tightening credit policy, to prevent the economy from being over-heated. Though we see raw material prices came down recently which hurts the business profitability of many players in other parts of the value chain, VSC is least affected due to its high value-added processing capabilities and mutually beneficial relationship with its portfolio of reliable end-user customers and suppliers. In conclusion, VSC welcomes and holds a positive view on the policy as over capacity is harmful in the long run. Such policy helps to raise entry barrier and stabilises the industry's long-term development that will benefit the existing players. With reference to the current economic development and market mechanism, we are confident that the China market will be able to maintain the current pricing structure and continue to be a long-term and positive playing field for the VSC Group.

APPRECIATION

I would like to take this opportunity to express my deepest appreciation to all employees, Board of Directors, shareholders, customers, business partners and suppliers for their continuous support and guidance. I look forward to sharing with you another good year.

Yao Cho Fai, Andrew
Chairman & Chief Executive Officer

1st June 2004

