



## Forging Ahead with Growth

VSC is strategically placed to capture unlimited opportunities thanks to effective pricing risk strategies coupled with the determination to offer better value proposition to customers.

# Chairman's Statement

**“Despite the continued volatility of steel prices and the lack of infrastructure and property development, the traditional steel stockholding business in Hong Kong recovered with satisfactory results.”**

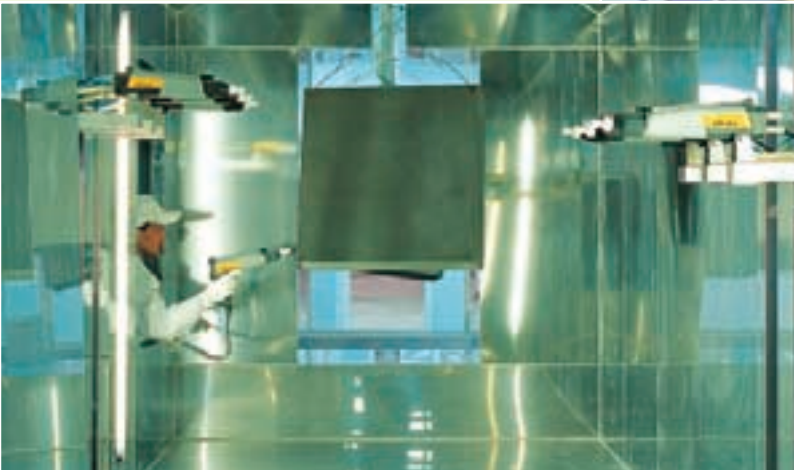
The financial year 2005/06 was filled with challenges and many lessons learnt. Despite the continued volatility of steel prices and the lack of infrastructure and property development, the traditional steel stockholding business in Hong Kong recovered with satisfactory results consequent to measures that the VSC Group have implemented: pricing risk strategies especially in the area of stricter inventory control and consolidation of our supplier base with the expectation of improving our leverage and relationships with suppliers. Other business segments were also able to adapt to an adverse industry environment through our ongoing process of continuous improvement. In summary, our consolidated turnover grew 11% to HK\$4,575 million, our profit attributable to equity holders decreased 37% to HK\$23 million.

Our management team has learned valuable lessons from the past year's ups and downs. As the fluctuating steel market braces itself for a period of consolidation, we plan to position ourselves to become a market leader in all our business units through executing growth strategies and continuing to invest in our company and people, with the aim of nurturing and developing enhanced relationships with both suppliers and customers. We will position ourselves with strength to capture the growing market opportunities generated by China's rapid economic growth.

Let me now take the opportunity to update you on each of our business units:



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### CAMP

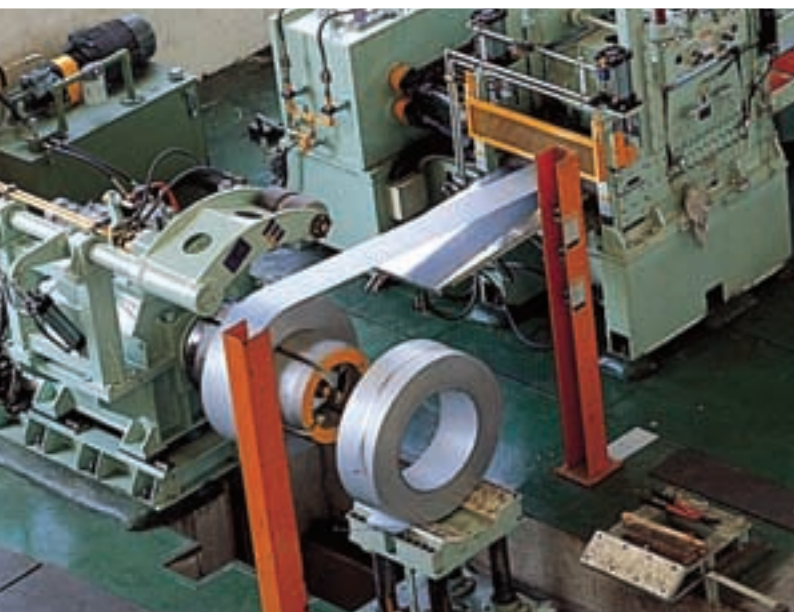
CAMP occupies a downstream position in the supply chain. It provides value-added, quality and efficient steel processing service and plastic resin materials targeting the high growth industries, such as home appliances, IT and telecommunications and automobile parts.

China's vast appetite for steel continues to make our CAMP operation a key growth driver. CAMP saw solid growth in turnover despite the volatility of steel prices, which adversely impacted the market.

In addition to the VSC Group's four coil centres in China, I am pleased to report that we have started our fifth coil center, in Kunshan. This is our first coil center in Eastern

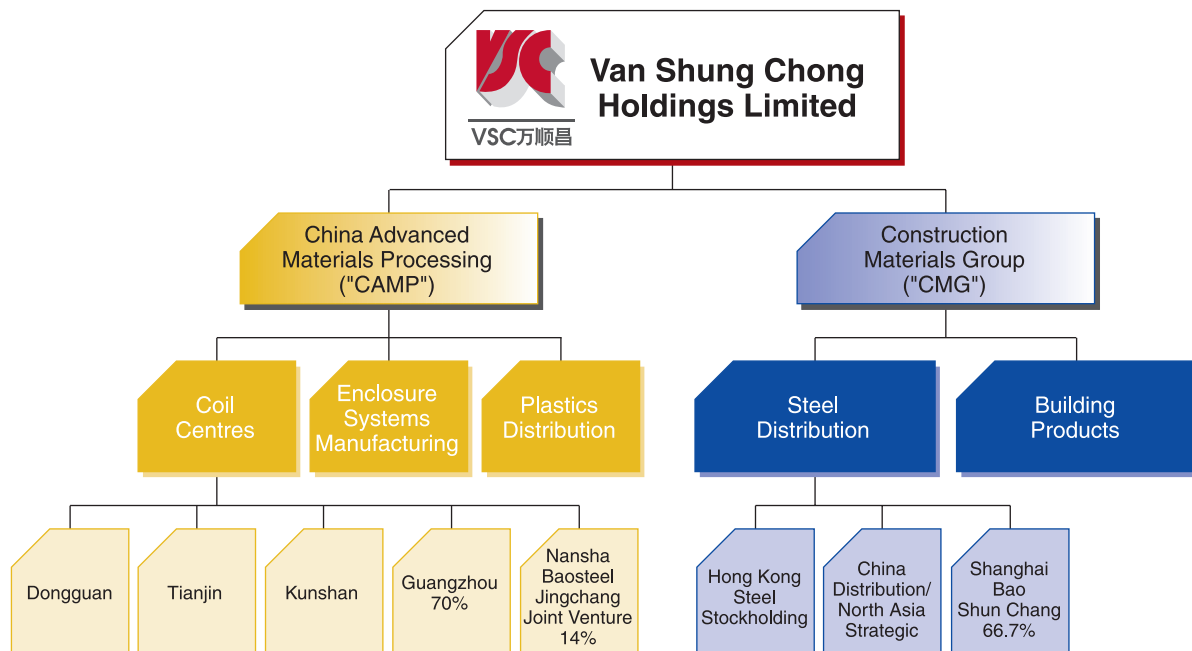
China, just 70 km from Shanghai. This strategically located facility will allow us to tap into the Greater Shanghai manufacturing area, fulfilling a strategy we have long been striving towards. The 60,000 MT facility will only partially serve a vast market where demand severely outstrips supply.

Customers concentrated in Greater Shanghai area are primarily multinational brands name of white goods and IT products, the very same customer niche we have been positioning ourselves to target. Those corporations will be able to better appreciate the value proposition that we are offering. The VSC Group will continue its growth to expand into new customer segments including auto parts, heavy machinery and power generation with a customer-centric strategy.



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**“We have implemented key customer focused strategies including significant investment in our technical talent and technology in efforts to capture this market niche.”**

Meanwhile, China's rapid evolution into a world factory has not only created vast opportunities for manufacturers, but also generated incendiary demand for steel supply. We are well placed to cater for global manufacturers who must stringently adhere to international specifications and undergo a strict vetting process. The VSC Group can meet the requirements of such customers, not only by offering the most competitive prices but also providing other value-added services such as delivery to multi-locations and the provision of logistic supply chain solutions.

We have implemented key customer focused strategies, which included significant investment in our technical talent and technology, in efforts to capture this market niche.

Meanwhile, we will also make a conscious effort to understand the market positioning of our competitors and continue to develop downstream markets with different products and services so that we can effectively carve out our speciality by differentiating ourselves from other players.

On a more macro approach, as China's fragmented and under-served market gets underway for consolidation, we plan to align ourselves with established international players who can complement our operations through strategic alliances and joint ventures. By taking such steps, we are confident that the VSC Group can solidify its position as market leader in the new environment.

“Executing new strategies, including broadening customer base to include more end-users with end-point demands.”

### CMG

CMG occupies an upstream position in the supply chain. As a bridge between suppliers and customers, VSC sources materials for its customers from different steel mills all over the world. Unlike CAMP, CMG acts as a distributor/agent for metal products, and is also a distributor for sanitary wares in the Greater China area. The VSC Group plans to focus on limiting its product offerings to fewer higher margin goods than a broad pool of products.

The Hong Kong operation's turnaround can be attributed to the successful and swift implementation of our pricing risk strategies that prompted us to enter into shorter contracts not exceeding two years, and have in

place mechanisms which allowed us the flexibility to adjust prices should it become necessary. The outcome is that both suppliers and customers are bearing the pricing risk in a volatile market.

However, our operations in China were adversely affected during the year by the turbulent steel prices coupled with the PRC macro-economic management policies. We are already executing new strategies, including broadening customer base to include more end-users with end-point demands instead of intermediaries whose needs are more unpredictable and correlates to the price fluctuations. The management is confident this will better mitigate the pricing risk in the future.

On the sanitary wares distribution side, the VSC Group continues to be one of the key distributors for TOTO in the Greater China market. This has proved to be a mutually beneficial alliance for both TOTO and VSC. We have also embarked on sourcing construction materials; in particular speciality tiles for manufacturing in China to market under the VSC Group's own brand.



“Complemented by a recovering market which includes several milestone projects expected to come online.”

“These values are teamwork, professionalism, continuous improvement and integrity, all of which are of paramount importance to the VSC Group’s overall objective.”

Going forward, Hong Kong’s recovered distribution operations continues to be one of the VSC Group’s more stable businesses given its market position in Hong Kong and maturity of operation. Complemented by a recovering market which includes several milestone projects expected to come online in the short to medium term: (e.g Tamar Development Project including the headquarters of the HKSAR Government, reinstatement of housing project and other infrastructure projects); the VSC Group will continue to maintain its leadership position in the future.

On the PRC steel distribution side, the VSC Group, realizing the market competitiveness, has embarked on various initiatives to distinguish itself in different markets. One such measure is the VSC Group’s investment in a company called “MetalChina,” that specializes in sourcing proceed metals and providing supply chain solutions to multinationals looking for cost efficient and reliable PRC suppliers.

Complementing the VSC Group’s competence and exposure to the metal sector in the PRC, we are confident this can add substantial value to the growth of this particular business.

For the sanitary wares distribution side, the VSC Group has set up a joint venture in Macau to tap into the huge construction boom led by the casino investments there. The VSC Group is optimistic about its potential prospects in the short to medium term.

### CREATING BETTER SYNERGY

The VSC Group realizes that human resources is one of its key assets, which is why it has embarked on a conscientious effort to educate its staff on the VSC Group’s core values. These values are teamwork, professionalism, continuous improvement and integrity, all of which are of paramount importance to the VSC Group’s overall objective. The VSC Group’s human resources approach is in line with our mission to become a global player and to capture China’s growth. VSC is committed to retaining and attracting the best and brightest talent through various efforts such as to provide a comprehensive employee stock option scheme and a development program with the Cheung Kong Graduate School of Business. We are confident these endeavours will differentiate VSC as a localized global player.

**“VSC has taken a more prudent approach to focusing its efforts in geographic regions it understands.”**

We believe the use of enhanced technology such as network-meeting tools via our internal virtual private network (VPN) for regular online management meetings and information sharing; EIS - an integrated web-based reporting system which contains multi-layers of information including business tracking, planning and analysis, and talented minds, will significantly help us to become a more integrated part of our customers' overall production cycle. We will be equipped to offer them professional services including sound advice on cost effectiveness of materials and delivery requirements. Consequently, we will be able to create an entry barrier that will ensure our competitive niche in the long-term.

## GOING FORWARD

In light of the price volatility and challenging operating environment the VSC Group has experienced in the past few years, the management has been seeking investment opportunities to diversify from the VSC Group's current steel related business with the goal to enhance profitability and equity holders' value in the long run.

Mindful of the PRC's vast size and its tremendous opportunities, VSC has taken a more prudent approach to focusing its efforts in geographic regions it understands such as the Greater Shanghai area where the VSC Group already has an established presence through its operational headquarters. To be successful in maximising such potential, a key criterion is to have a competent operating team. As such, the VSC Group will be embarking on a recruitment effort to match the opportunities with people competence.

## APPRECIATION

Finally, I would like to take this opportunity to extend my gratitude to all employees, Board of Directors, shareholders, customers, business partners and suppliers without whom our success would not have been possible. I look forward to bringing you a productive year.





## Professionalism

We deliver excellence by being: Specific, Measurable, Achievable, Relevant and Timely

