

Strategies to continue future SUCCESS

We ensure our continuous future success by creating value to our domestic and global customers through a highly motivated team of professionals with expertise and China experience in value-added processing, supply chain management and total solution service.



Management Discussion and Analysis

Financial year 2005/06 was a year with remarkable improvement in operating profit but the profit attributable to our equity holders was not improved because of the surge in interest expenses during the year. In 2005/06, the VSC Group turnover grew 10.5% to a new record high of HK\$4,575 million, with improvement on our gross margin to 5.2% as compared with 4.9% last year. While overall profit from operations improved by 10.4% to HK\$73 million, interest expenses surged to HK\$46 million, an increase of HK\$28 million over last year as a result of continuous interest rate hike during the year. The significant surges of interest expenses, combined with other

factors as discussed below have drained our profit attributable to equity holders. In 2005/06 our profit attributable to our equity holders was down to HK\$23 million as compared to HK\$36 million from last year. During financial year 2005/06, we persistently executed our turnaround strategies for our traditional steel stockholding business in Hong Kong and we successfully returned the Hong Kong steel distribution business back to profitability. To tackle the continuous increase in interest rates, we focused on improving the efficiency of our operating assets and reducing our interest-bearing liabilities. In financial year 2005/06, our Days Sales Outstanding improved 11 days and our inventory turnover days improved 15 days as compared with last year. The improvement in our asset turns enabled us to generate more funds



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to reduce our debt. In financial year 2005/06, our gearing ratio improved to 0.80 compared with last year of 1.29 and our interest-bearing loan was reduced by HK\$307 million from last year. Moving forward, we will continue to execute our successful business strategies, continue to focus on customer satisfaction and supplier relationship, along with investment in our structure and people. We will continue to fuel our CAMP operations to meet the increasing demand resulting from the rapid growth of the China economy and we will continue to execute our strategies to maintain profitable growth of our steel distribution in Hong Kong and to recover from our business in Mainland China. The VSC Group's core corporate strategies are summarized as follows:

1) Continue to strengthen our Coil Center business in China

China has kept their fast pace of becoming the world's factory and our Company will continue to adhere on the fast track. We will realign our resource and focus on developing and growing our coil center business in China. In the year under review, we have realigned part of our resources on China Steel Distribution to our Coil

Center operations. As a result of our realignment of part of the CMG resources, both operations recorded growth; CMG revenue in financial year 2005/06 increased by 8% and our CAMP revenue increased to a greater extent to 16%. To speed up our growth and tap into the high growth area, we are in the process of building a new coil center plant in Kunshan to serve our customers in Eastern China. In addition to that, we will also explore the possibilities of strategic alliance with world-class leaders in steel processing to create synergy to expand our customer base and increase customer satisfaction through world-class expertise and global standard in management.

2) Penetrate high growth and profitable sectors through resource realignment and key account management

We will continue to monitor the demand of steel products from our targeted high growth industries. During the year under review, the information technology, telecommunications and home appliances industries generated strong demand for





flat-rolled steel and a variety of steel finished products. To tap into the higher margin business, resources on the distribution of construction steel in Shanghai and Wuxi have been realigned to support the growth in Coil Centers. In addition to resource realignment, substantial efforts are devoted on improving customer satisfaction and key account management, members of our senior management team are leading the effort to systematically visit major customers, to keep up with latest market trends and seek customer feedback to improve our level of services in order to achieve our goal of continuous customer satisfaction.

3) Create value to our domestic and global customers through our expertise and China experience in value-added processing, supply chain management and total solution service.

With the strategic alliance and the synergy effect, we will continuously enhance our ability to serve our domestic and global customers. Our experience and relationship with steel mills in China and Asia combined with the strategic alliances with local and world-class leaders in steel processing will enhance our ability to provide a full range of services including distribution, value-added processing, supply chain management and total solution to our domestic as well as global customers. Our core products portfolio will continue to include Hot Rolled Coils, Cold Rolled Coils, Galvanized Steel, Pre-

painted Color Steel Sheets, Aluminium & Zinc Coated Steel, Aluminium Coated Steel, Stainless Steel, Silicon Steel, Reinforcing Bars, Steel H-Piles and Steel Sheet Pilings, etc.

4) Enhance distribution network and supply chain

We will continue to execute our strategies to expand the scope of our business and services including enhancement of our distribution network, realignment of our resources and organisation structure. We have consolidated our flat product steel distribution in Shanghai, Wuxi and Guangzhou from our CMG Division into CAMP Division to strengthen our source of supply and quality of inventory to support our CAMP operations, and to increase processing content of materials previously distributed by CMG on simple trading basis. We will

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continue our long product steel distribution in Hong Kong, Shanghai and Shenzhen with continued focus on our key accounts. We also have plans and resources to develop into areas of metal products sourcing, fabrication, logistics arrangement and downstream toll rolling. We will continue to develop our strategic alliances with reputable steel supplier and maintain mutually beneficial relationship with strategic joint venture of Guangzhou and Tianjin Coil Centres. Those alliances will enable us to secure stable and timely supplies of quality steel to cater to the growing distribution networks.

5) Maintain professional team with spirit of continuous improvement

Our success is based on the recognised quality of our products and services, as well as our ability to anticipate the market moves and understand our customers' needs. The improvement of our operating efficiency would not be achieved without a team of professional working in VSC. During the year, we have strategically invested in our human capital; we have recruited, maintained and trained our people to execute our business strategies to support our growth and operating profitability. Moving forward, we will continue to pursue excellence in operations, foster VSC culture and drive for excellence.





Continuous Improvement

We always challenge ourselves to achieve excellence by continuous learning, leading positive changes and consistently walking our talk