CAMP

China Advanced Materials Processing

"In financial year 2005/06, overall CAMP's turnover increased by 16% to HK$1,502 million."

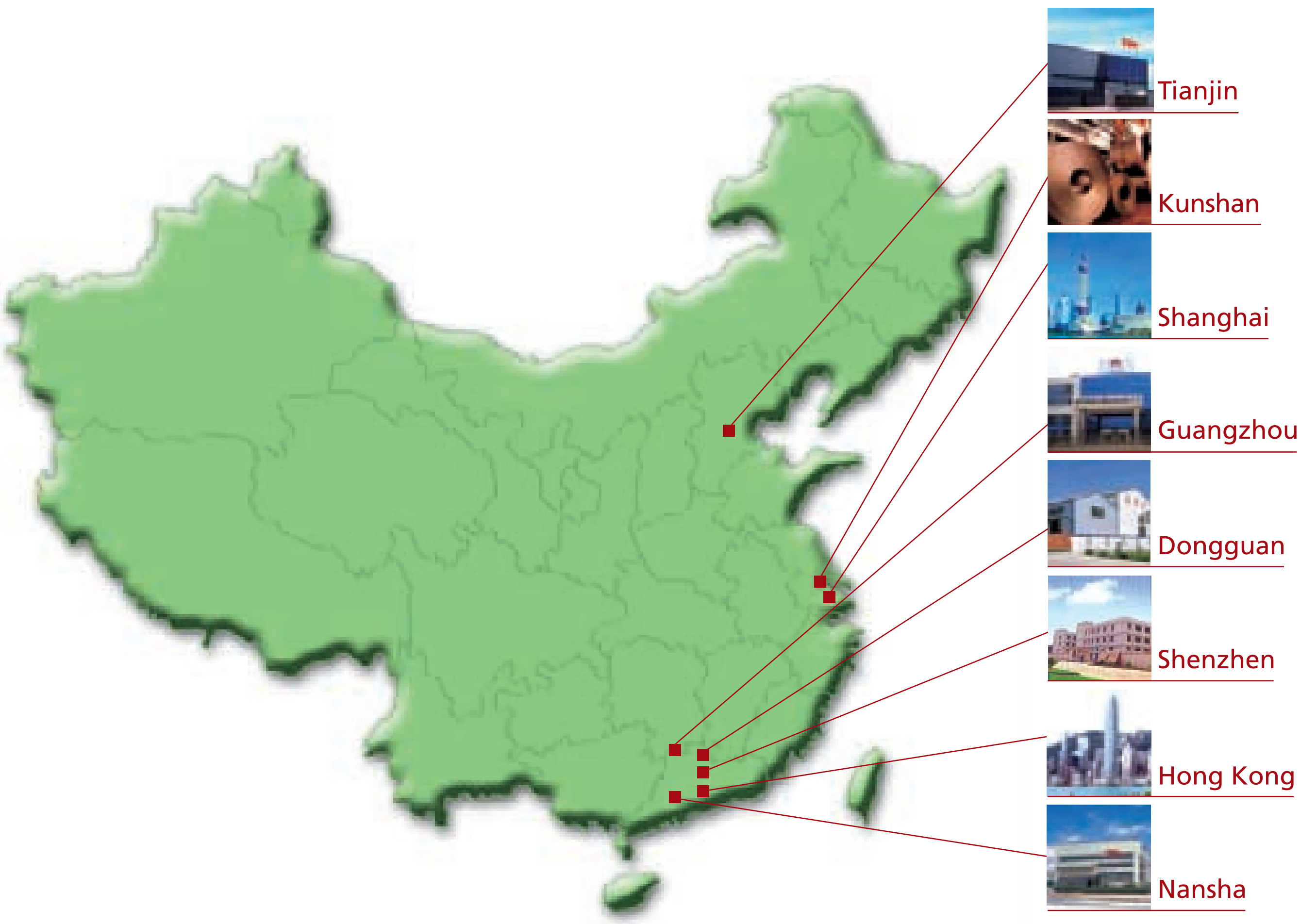
CHINA ADVANCED MATERIALS PROCESSING ("CAMP")

The VSC Group's CAMP operations comprise of three business units, 1) coil centre operations which provide rolled steel processing services to finished products/OEM manufacturers of white goods, electrical appliances, computers and automobile parts; 2) manufacturing of customised enclosure systems which focuses on a variety of precision metal processing and assembly services, mainly for the telecommunications industry; 3) distribution of engineering plastic resins to industrial manufacturers of household appliances, audio/video equipments, telecommunications applications and computers in China.

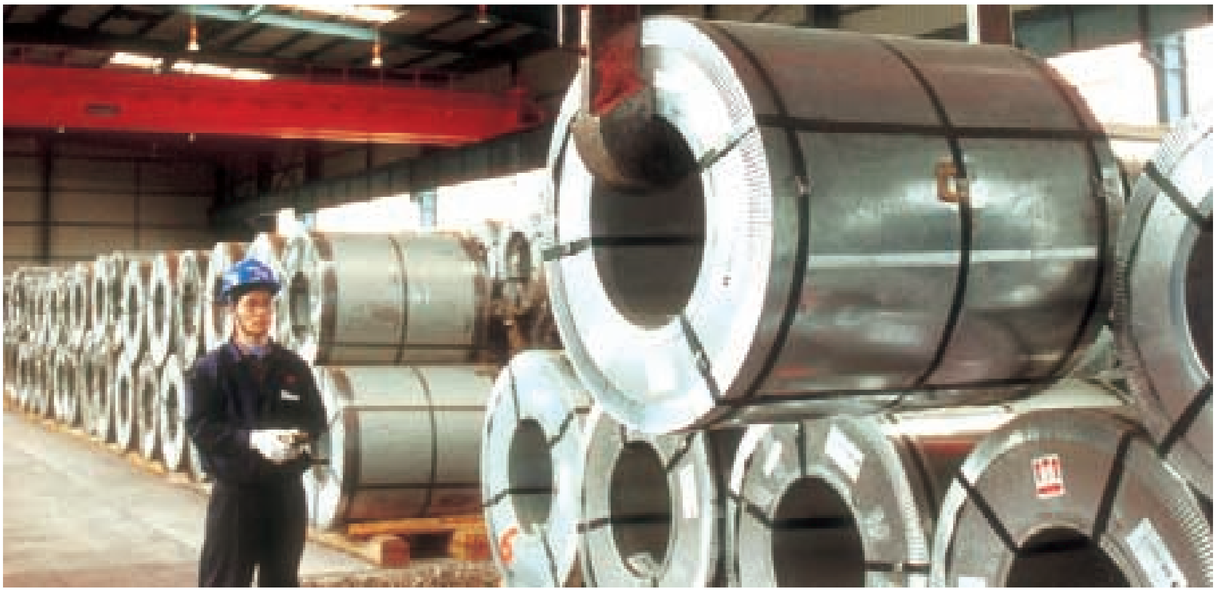
In financial year 2005/06, overall CAMP's turnover increased by 16% to HK$1,502 million. However, due to volatility in steel price particularly in the second half of the year, the coil centers in China experienced a decline in margin, and the segment result has deteriorated from last year.

The value propositions of our coil centres including our ability to deliver to customers through just-in-time (JIT) delivery, reliable supply chain management, reduction in scrap and other cost savings.

CAMP Service Centres



Coil Centre Operations



"The coil centres act as an essential intermediary in the steel consumption value chain bridging between steel mills and finished products/ OEM manufacturers."

Coil Centre Operations

The Group's coil centre operations consist of three main subsidiary factories in Dongguan, Tianjin and Guangzhou and 14% investment in a joint venture company in Nansha. The coil centres act as an essential intermediary in the steel consumption value chain bridging between steel mills and finished products/OEM manufacturers. The value propositions of our coil centres include our ability to deliver to customers through just-in-time (JIT) delivery, under short order lead time, reliable supply chain management, reduction in scrap and materials handling costs, savings in investment of machinery and factory space, quality assurance with flexible supply of product range. To enable our value proposition to our customers, the coil centers have to maintain a certain level of inventory. While the revenue grew from last year, the unexpected and lengthened drop in steel price, particularly in the second half of the year; have deteriorated the performance of our Coil Center for the year.

"DGCC focuses on serving a group of large volume users by capitalizing on excellence in operations, customer service and latest machinery technology."

The **Dongguan coil centre (DGCC)**, running in its eleventh year of operations, remains the Group's leading coil centre. Turnover dropped by 2% to approximately HK$492 million, with volume decreased by 5% to about 73,000 metric tons. Located in Dongguan, Humen, DGCC is in strategic proximity to many Hong Kong and Taiwan based OEM manufacturers of electrical appliances (DVD, LCD panel) and computers (notebook, printer) in Dongguan and nearby to the Pearl River Delta regions. DGCC focuses on serving a group of large volume users by capitalizing on excellence in operations, customer service and latest machinery technology. During the year, the price of high-end rolled flat steel products continue to decline, at an unexpected rate. The continue decline in steel price caused concern to industrial customers who took the strategy of reducing their inventory. Under such market conditions, DGCC succeed in keeping its top line and sales quantity was comparable with last year, but suffered a decline in its gross margin. Compare with that of last year, DGCC gross margin reduced from 14% to slightly over 4%. Segment profit for financial year 2005/06 is HK$7.7 million, a 86% drop from last year. Following a year of erratic price fluctuation and adjustments, the management expects that the market ahead would stabilise and our Dongguan operation will back in good shape in coming year.

The **Tianjin coil centre (TJCC)** entered its second full year of operations in 2005/06 and have learnt some valuable lessons. Turnover for financial year 2005/06 amounted to approximately HK$247 million, up 58% from that of last year. Despite revenue increased from last year, TJCC suffered a segment loss of approximately HK$7 million, due to a market climate with declining steel price. The actual margin was not as satisfactory as previous year. As the steel price is getting more stable at the end of the year, the management believes that moving forward the Tianjin operation will provide a more positive contribution to the VSC Group with a recovering bottom line.

VSC Group continue holding 70% equity shares of **Guangzhou coil centre (GZCC)** since we acquired it in late March 2004. Situated in Guangzhou, Huangpu, GZCC is the third coil centre managed by CAMP. Turnover for the financial year 2005/06 amounted to approximately HK$363 million, a 46% increase from last year. Despite volatile market conditions, GZCC managed to achieve growth in revenue and segment profit reached HK$12 million for the year, represent a 33% drop from last year. As the customer base of the operation has been relatively stable and the demand is expected to remain strong, the management expects the performance will be improved once the steel price is getting stabilised.

VSC Group's partner, Shinsho Corporation, the core trading arm of Kobe Steel Group, provides strong support in ensuring a stable and high quality supply of steel as well as developing a strong customer portfolio of established Japanese clientele in the automobile and home appliance sectors. GZCC focuses on serving the re-export OEM home appliance manufacturers in Guangzhou and domestic customers in the Pearl River Delta regions. VSC Group plans to further enhance operations and machinery at GZCC, and with Shinsho Corporation, jointly study the viability of expanding the current production capacity to meet anticipated demand surge.

“... VSC Group incorporated a wholly owned subsidiary in Kunshan, located in Jiangsu Province of China. This coil center aims to serve the surging demand from our customers in the Yangtze River Delta region ... ”

The VSC Group’s 14% investment in the **Baosteel Jingchang joint venture** in Nansha recorded a net profit of approximately RMB14 million. Dividends during the year totaled approximately RMB1.7 million. The Nansha JV has a reputable industry position by offering highly competitive prices and quality service. Continuous operational improvements were driven by the widespread use of balance scorecard to set specific measurable targets in working capital efficiency, customer satisfaction index and passing of ISO9001:2000 audit.

As mentioned above, on 6th April 2006, VSC Group incorporated a wholly-owned subsidiary in Kunshan, located in Jiangsu Province of China. This coil center aims to serve the surging demand from our customers in the Yangtze River Delta regions, the newly-constructed factory is expected to be ready for production by December 2006 with an annual capacity of 60,000 metric tons in the beginning phase.

Enclosure Systems Manufacturing

"The quality of VJY products and services has successfully helped our customers to increase their competitive advantage and we become the vendor of choices with top customers like Huawei and Zhongxing."

Enclosure Systems Manufacturing

The **VJY enclosure systems manufacturing (VJY)** in Shenzhen entered into its fourth year of operations, it provides comprehensive steel processing services and solution to customer including punching, bending, stamping, coating, assembly, technical design and quality control. VJY is focused on the high growth telecommunications industry in Southern China, which is dominated by a few leading domestic telecommunication equipment providers/manufacturers. VJY has continued to invest in engineering and operations to ensure their products and services are high quality with competitive costs to our customers. The quality of VJY products and services has successfully helped our customers to increase their competitive advantage and we become the vendor of choices with top customers like Huawei and Zhongxing. Turnover for 2005/06 grew by 4% to about HK$142 million, as compared to last year's HK$136 million; segment profit improved to about HK$ 8.2 million. In the coming year, VJY will continue to apply key account management in servicing core customers, improve its technical manufacturing capability and sales forecast to lower inventory costs.

Plastics Distribution

"The division continues to promote the engineering plastic resins of a wide range of suppliers including Samsung Total, Samsung Cheil, GE Plastics and UMG."

Plastics Distribution

For the year under review, the soaring crude oil price continued to drive up the price of plastics. In financial year 2005/06, the plastics department recorded a 4% increase in turnover to HK$259 million as compared with last year of HK$248 million, however, the actual tonnage sold slipped to 16,284 tons as compared with last year of 18,523 tons. The soaring in plastic price and interest rates have driven down the market demand. Despite the revenue increased, segment profit reduced by 24% to approximately HK$11.2 million. The division continues to promote the engineering plastic resins of a wide range of suppliers including Samsung Total, Samsung Cheil, GE Plastics and UMG. The team offers technical assistance to customers' new products development and coordination with suppliers. Local sales teams in Shenzhen and Guangzhou have penetrated into the local markets around the Pearl River Delta regions, targeting the huge demand for high quality imported resins, particularly in the home appliance, health care and electrical and electronic markets.

Integrity

We respect our customers and colleagues, demonstrate honesty, integrity in all we do