Financial year 2001/02 was undoubtedly the most challenging fiscal year the VSC Group had ever experienced since its listing in 1994. A majority of our business units recorded drops in terms of both turnover and profitability. In retrospect, there were a number of factors contributing to these results. Externally, the general economic slowdown in both the domestic and global markets had exerted enormous pressure in lowering steel prices. The depressed local real estate market causing a shrinkage in demand coupled with keen competition had induced fierce fight for market share among steel suppliers. Delay in construction projects and termination of distributorship with several major suppliers for our building products and plastics businesses during the year had further lowered revenue and hampered business growth. Internally, the management had decided to take the opportunity to implement process improvement strategy for the VSC Group. As such, rigorous efforts were spent to streamline and consolidate operations for improved long-term sustainable profitability at the expense of incurring heavy investment costs in IT and process control, resulting in high staff turnover and retrenchment costs. In addition, our various investments in new business areas such as enclosure systems manufacturing, plastics distribution channel in Mainland China and retail outlet of building products also led to high initial start-up costs for current fiscal year while their expected contribution could only be realised in the coming years. As a result, the consolidated profit of the VSC Group had dropped to a historically low level of approximately HK$10 million since its listing.

RESULTS

Turnover for the year ended 31st March, 2002 was HK$2,138 million, a decrease of 10% compared with the previous year. Gross profit and gross margin were reduced by 36% and 28%, respectively. Profit from continuing operations decreased 79% from HK$65 million in the previous year to HK$13 million in the current year. Profit attributable to shareholders was HK$10 million, a decrease of 96%. Excluding gain on investments and gain (loss) on investment properties (together referred as "Exceptional Gains (Losses)"), profit attributable to shareholders amounted to HK$2.6 million as compared to an adjusted loss of HK$4.4 million in the previous year.

Basic earnings per share, excluding Exceptional Gains (Losses), amounted to 0.7 cents (2001 - loss per share 1.2 cents). A final cash dividend of 0.8 cents per share was declared, which together with the interim cash dividend of 1.8 cents per share, gives a total cash dividend of 2.6 cents per share for the year and represents a cash dividend payout (excluding Exceptional Gains (Losses)) of 361%. A bonus issue of warrants was also made in November 2001 to the shareholders in the proportion of one warrant for every ten shares then held.

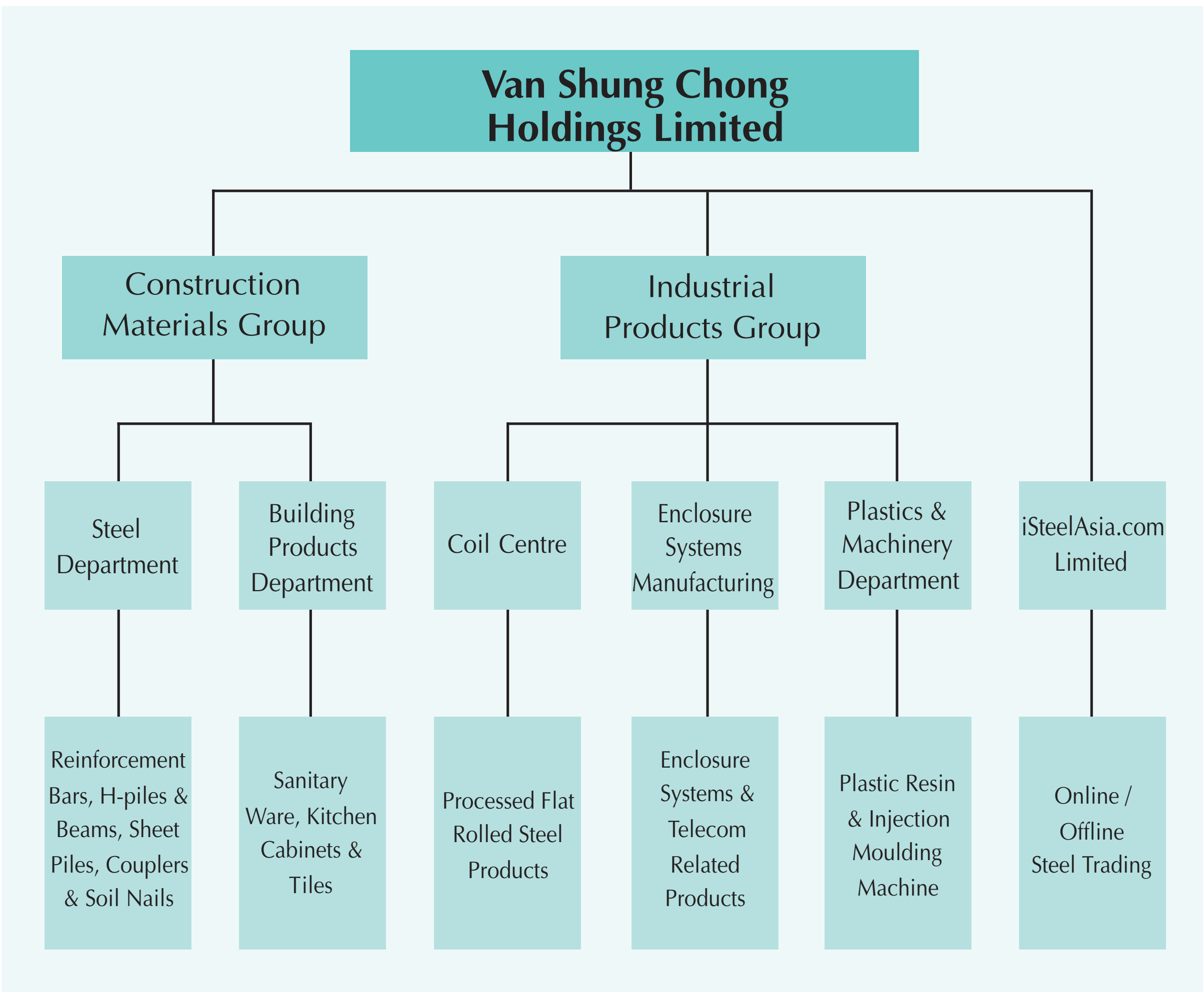
PROSPECTS

As a result of the internal reorganisation, the VSC Group can now be structured into two distinct operational groups. The Construction Materials Group, which includes stockholding and supplying construction steel to the local Hong Kong, Macau and southern China markets, is coupled with our building products department, which provides kitchen cabinets and sanitary ware to projects in Hong Kong, Macau and southern China all sharing similar customer base. The Construction Materials Group is the longest and the most mature operating business unit within the VSC Group. As a matter of fact, this can be traced back to the very beginning of the VSC Group thirty years ago. The second operational group is the Industrial Products Group. With the accession of China into the World Trade Organisation ("WTO") and through years of experience in the steel trading industry, the VSC Group realises that it is a consistent phenomenon that the closer the services provided to the end product, the higher the margin. As such, this Industrial Products Group consisting of the plastics and machinery distribution, the steel service centre operation, the telecommunication enclosure systems operation, and the distribution channel of iSteelAsia is anticipated to become the growth engine for the VSC Group leveraging on the solid platform of the Construction Materials Group.

The Construction Materials Group

For the construction materials operations, the Hong Kong SAR government has already implemented multiple measures to boost the development of the economy so as to improve the business environment. In the public works sector, investment in infrastructure capital works will amount to HK$600 billion in the coming 15 years, including HK$200 billion on rail works and HK$400 billion on government public works. For instance, estimated expenditure on the capital works programme for fiscal year 2002/03 will reach HK$28.5 billion, a 10% increase from the average annual expenditure of HK$26 billion in the previous few years, giving a positive boost to the local construction market. Upcoming projects to fuel the demand on the VSC Group's construction materials encompass:

– Large-scale projects by the two railway corporations including related superstructure property developments for West Rail, the MTR Tseung Kwan O Extension, the Ma On Shan Line, the KCR Extension to Tsim Sha Tsui, the Penny's Bay Rail Link and the Sheung Shui to Lok Ma Chau Spur Line.



- Major highway projects by the government amounting to HK$100 billion in the coming 10 years, including Shenzhen Western Corridor, the Deep Bay Link, Route 7, Route 9, Route 10, Central Reclamation Phase III and Wanchai Development Phase II, and South East Kowloon Development.

- More than 60 construction projects on recreational, sports and cultural facilities investing over HK$8 billion in the five years between 2002 and 2007, covering indoor sports stadiums, libraries, swimming pools, urban administration blocks and regional recreational and resting facilities.

- More than 42 new projects to be implemented by the Urban Renewal Authority in the coming 5 years to provide 18,000 housing units.

- Various projects for environmental protection like building of facilities to handle sewage water, refuse and construction waste, as well as projects for tourism promotion such as Disneyland Theme Park, cable car system in Tung Chung, Wetland Park in Tin Shui Wei, Art and Cultural Centre in West Kowloon reclamation, grand pier for cruises in South East Kowloon.

As illustrated from the above list, the VSC Group is optimistic that opportunities lie well ahead for the VSC Group to capture. Our strong foundation in servicing the construction industry, in-depth relationship with customers and wide product offering complementing a total-solution provider approach have equipped us with an advantage to maximise business and profitability. The VSC Group will continue to explore the market opportunity of project business in nearby region such as Macau, Shenzhen and Guangzhou, which all have very flourishing construction activities underway.

The Industrial Products Group

Outlook for the industrial products operations is very encouraging. Robust growth in China with expected GDP growth of over 7% propelled by its ongoing economic reform has provided the VSC Group with abundant business opportunities to capture this fast growing higher margin section in the steel supply chain. China's accession into the WTO and the successful bid to host the Olympic Games by Beijing will add further momentum and translate into a growth engine with strong economic expansion and increased dominance in the region. For example, the VSC Group's new distribution channel of plastics in Shunde is expected to meet the rising demand of imported engineering and commodity plastic resins from over 3,000 home appliances factories in the city under the gradual reduction in tariff following China's accession into the WTO.

Capitalising the strong economic growth of China, the VSC Group's strategy is to focus on its core competence, and perform an enterprise building approach by offering consistent and reliable services. Case in point, the Dongguan coil centre is a profitable operation with healthy margin. The VSC Group plans to acquire other coil centers and/or set up new operation in various strategic cities in China in the coming year. Tianjin is one of the target locations where anticipated demand for processed flat steel products consumed by household appliances industry for domestic and export uses far exceeds the volume and quality offered by existing coil centers in the area. As more and more Hong Kong and Taiwan manufacturers will be moving their operations to eastern and northern coastal region of China, these cost-conscious operators will need quality, efficient and reliable coil centers as vendors that are conveniently located in proximity to provide flexibility to their demanding production schedule. The VSC Group is proud that its Dongguan coil centre has always excelled in meeting short lead time demanded by its customers and has been able to utilise this competitive advantage in expanding market share. Detailed feasibility study has been done with encouraging projections and the VSC Group hopes to be able to start implementing this plan in this year. It is the VSC Group's firm belief that in developing a chain of well-managed coil centers throughout Mainland China using an enterprise building approach, it could generate healthy return of investment by staying focus on a niche part of the market.

Another area of high growth potential in the Industrial Products Group will come from its new enclosure systems manufacturing in Shenzhen, which is expected to benefit from the tremendous market development of the telecommunication industry in Mainland China. In a relatively short time frame of only 9 months, the VSC Group has achieved a large-scale high-quality production facility in Shenzhen with ISO certification and "Approved Vendor" qualification from Huawei, Zhongxing and Emerson Group of US. This enables our operation to secure orders from these 2 major domestic customers. The new plant is also well positioned to capture the emerging market demand from multi-national network solution providers, including both domestic sales in China and export sales to overseas countries. The VSC Group targets to, through close collaboration with these major customers, become an integrated OEM to develop total solutions, broadening its product scope to not only enclosure systems but also sourcing and assembly of power supply and other peripherals. The management is confident this strategy of servicing a high growth market while focusing on a niche service offering consistent quality and flexibility will enhance value to shareholders through growth from this new line of business in the years to come.

Amid a disappointing year, the VSC Group has made the necessary commitments and investments enabling the VSC Group to emerge from these tough times stronger than ever. The VSC Group will continue to evolve its businesses to meet the changing needs of its customers and maintain a niche position in the market. The management remains highly committed to be more dynamic, focused and appreciative to value enhancements for the VSC Group.

On behalf of the Board, I would like to express my sincere gratitude to all our employees for their dedication and hard work over a difficult year. To all our staff, shareholders, customers, suppliers and business associates, we look forward to sharing a brighter future with glorious success.

Yao Cho Fai, Andrew
Chairman