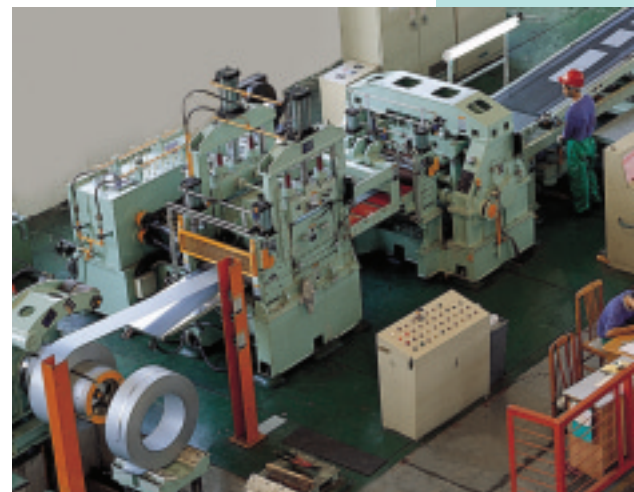
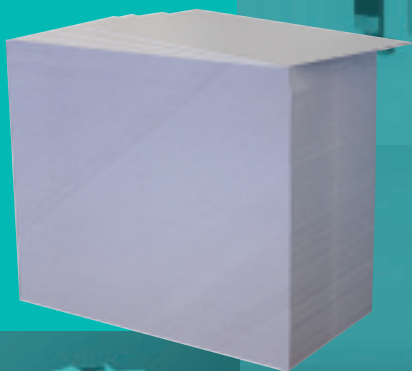
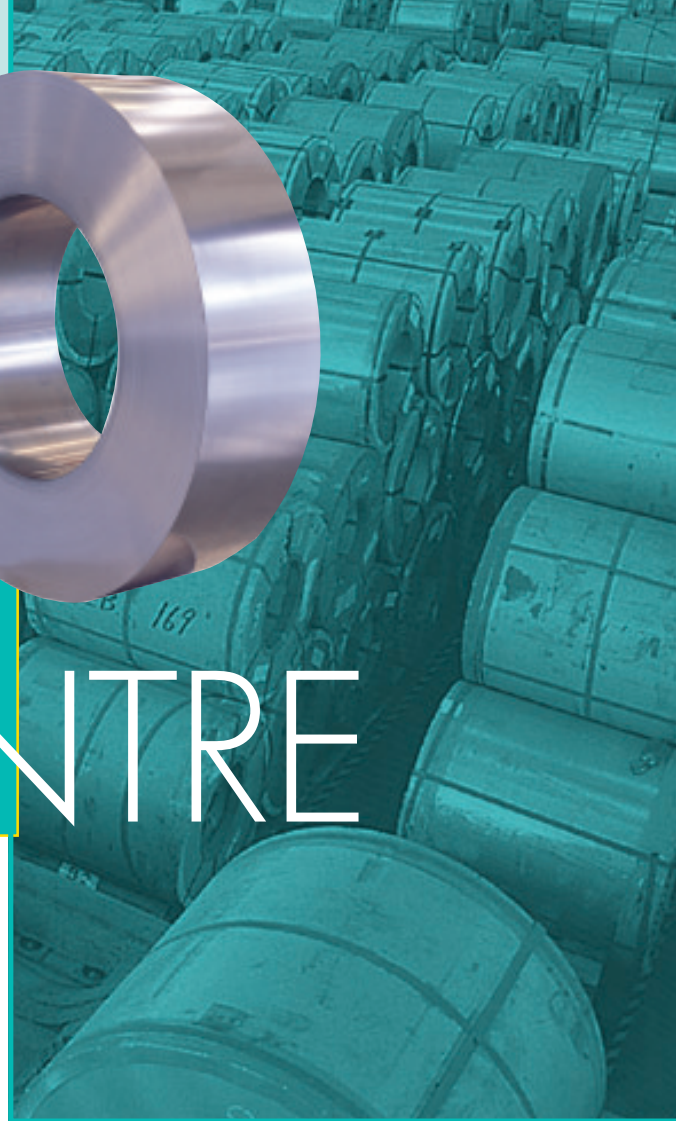


COIL CENTRE



telecommunication systems. Our clientele consists of Hong Kong, Taiwan and Mainland China industrial manufacturers as well as large domestic telecommunication equipments suppliers located mostly in the Pearl River Delta with their products exported mainly to the US and European markets as well as consumed domestically in Mainland China. China, being the world's leading production base of electrical appliances and computers, offers a vast potential market for the VSC Group's industrial products. However, these business operations in the year under review had not been able to truly reflect their full potentials, as the Shenzhen enclosure systems manufacturing operation as well as the Shunde plastics distribution operation were only a few months old and were still working out their teething problems, coupled with the macro worldwide economic recession, notably in the US, whose market was furthered hampered by the September 11 events.

1. Coil Centre

The **Dongguan coil centre** capitalising on its well established operations reported a profit before unallocated overhead of approximately HK\$33 million. When compared with last year, turnover in dollar remained nearly the same but sales in tonnage increased by around 30%, which was highly encouraging especially under a price declining steel market. Started since June 1995, the Dongguan coil centre is a testimony to the VSC Group's strong belief in the potential of processing industrial flat steel products for the light industry manufacturers in Mainland China. Overcoming numerous problems encountered in the early stage with respect to production, customs,

customer base development and so forth, the VSC Group had been able to witness the fruition of its perseverance and efforts. For 2001/02, the Dongguan coil centre is the most profitable operation among all the business units of the VSC Group. Its success can be attributable mainly to the following factors. First, "smart" investment in the VSC Group's resources: e.g. the addition of machinery and production layout improvements were timely implemented before the peak season to boost the production capacity, which helped to make the 30% increase of sales tonnage possible. Second, "smart" segmentation of market: e.g. sales efforts were strategically spent on several large manufacturers of computers and visual/audio equipments who were less affected by the economic slowdown in the US. Third, "smart" sourcing: e.g. strategic relationship with large steel mills in Japan, Korea and Taiwan had been built to ensure a quality and price competitive supply to support the customers' demand. Fourth, "smart" process: e.g. the whole manufacturing flow was analysed and areas like production logistics, inventory management and customs book-matching were all vigorously improved to reduce costs and enhance competitiveness and profitability.

The VSC Group is very optimistic on the prospect of coil centre operation. Given the growing production base in China as prospered by its domestic economic development and accession to the WTO, the VSC Group firmly believes that the increase in demand for its processed industrial steel will continue. The VSC

Group had thus planned to expand the scale of operation in terms of volume and geographical location by either acquisition of existing coil centres and/or establishment of new coil centres in southern and northern China. Strategically, the VSC Group remains committed to its vision of developing a chain of coil centres throughout Mainland China serving its customers with consistent qualities.

2. Enclosure Systems Manufacturing

The fast growing telecommunication industry in Mainland China is characterised with a forecasted annual growth rate of over 20% throughout 2005. Coupled with the China government's policy to recommend adoption of 100% domestic supply of certain products like switches, fiber optic cables, power supply equipment and enclosure systems, the VSC Group established its first enclosure systems manufacturing plant in 2001 to grasp such tremendous market potential. Located in Henggang of Shenzhen, the new factory of **VJY Telecommunication Equipment (Shenzhen) Co., Limited** ("VJY") had been in operation since November 2001. VJY manufactures a variety of customised enclosure systems including whole cabinets, metal boxes and other accessories. These enclosure systems have widespread applications in telecommunication system, network system, exchange system and other related fields, and are not a single brand specific.

Occupying more than 28,000 square metres, the new plant has fixed assets investment of about HK\$25 million and

is equipped with advanced punching machines, bending machines and an automatic powder and paint spray line imported from Germany and Japan. Assisted by professional consultants from the US, the assembly line is designed to provide a world-class production process and inventory management, reflecting fully the benefits of Pull System and Total Cycle Time approach. This high quality standard had been verified by the ISO 9001 certification granted to VJY in January 2002, 2 months shortly after its opening. This production is also expected to attain strong synergies with Dongguan coil centre as processed steel sheet is one of the major raw materials for enclosure systems.

Targeting on the key domestic telecommunication equipment suppliers, VJY had successfully obtained the qualified supplier status for some major customers, Huawei, Zhongxing and Emerson Group of US. VJY aims to become their core supplier of enclosure systems and gradually to achieve a complete outsourcing from them for other assembly operations like power supply and printed circuit board. A sales office in city area, Futian of Shenzhen was set up in April 2002 to provide better customer coordination and support services. With a modern management and state-of-arts production facilities, VJY is well positioned to capture other international vendors' (like Northern Telecom, Ericsson etc) business upon the impending opening up of China's telecommunication industry for foreign participation under a strong local content policy.

