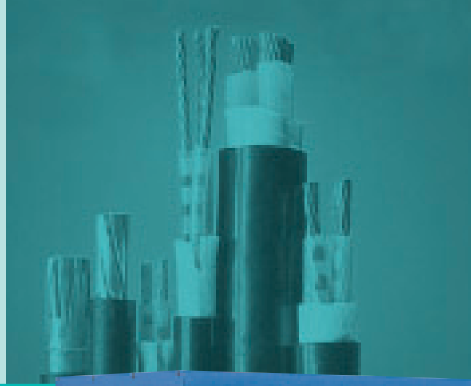
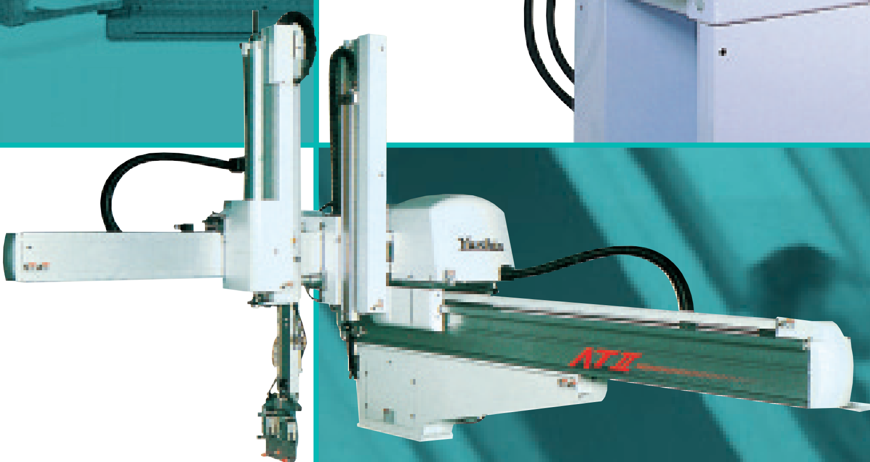
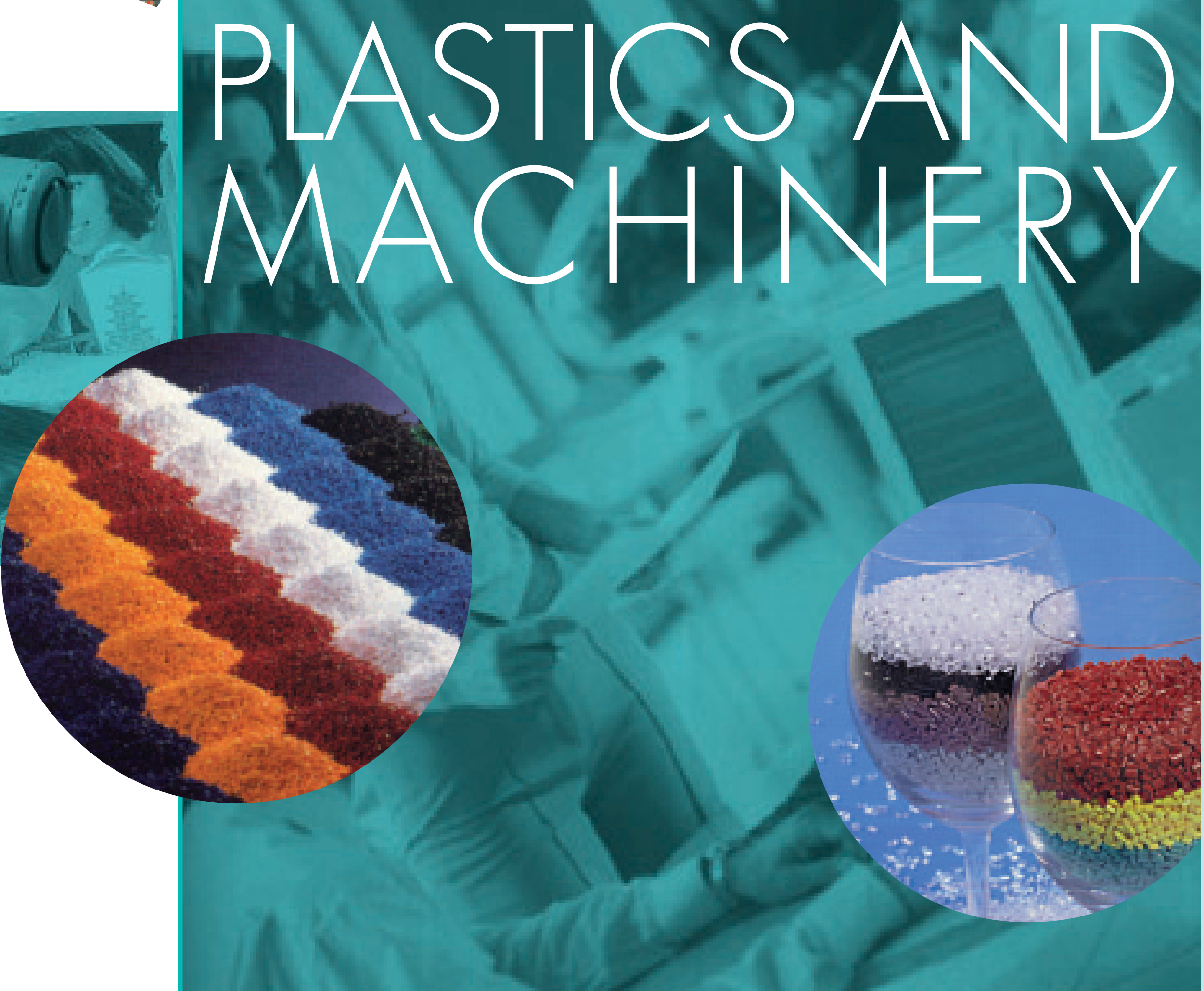




PLASTICS AND MACHINERY



Despite a globally volatile steel market, iSteelAsia has achieved an encouraging growth in the past year with turnover increased over 133% to approximately HK$428 million by comparing the turnover attained for the year ended 31st March, 2001. With strong and long-term "quality service" commitments, iSteelAsia has become a reputable "Value-added Service Provider" of the steel end-users and suppliers in Asia. iSteelAsia's strategy is to be focused both geographically, and in terms of product offerings (i.e. the type of steel products and other value-added services), iSteelAsia currently operates four regional sales offices in Mainland China along the coastal cities: Shanghai, Tianjin, Beijing and Guangzhou. This coverage has provided a highly effective sales distribution network, which the iSteelAsia Group is able to reach a majority of population in Mainland China.

Looking ahead, iSteelAsia will continue to capitalise on the e-commerce capabilities and brandname established over the past two years. iSteelAsia will focus as an e-aggregator and e-distributor for the growing markets in Asia, particularly Mainland China.

The VSC Group will, as previously arranged, continue to source and supply steel to the iSteelAsia Group to facilitate its expansion of steel trading operations. As at 31st March, 2002, the balance due from the iSteelAsia Group amounted to approximately HK$137.7 million, arising mainly from the purchase of steel. The balance is unsecured, repayable with normal credit term and bears interest at commercial lending rates for overdue balance. The VSC Group will continue to monitor this investment in a proactive manner and will further capitalise the synergies between the VSC Group and the iSteelAsia Group in the future.

The **Baosteel Jingchang joint venture** in Nansha continued to achieve encouraging performance with sales increasing to over RMB200 million. Sales in tonnage were almost doubled although sales value and profitability were adversely affected by decline in flat product price during the year. As such, only a slight net profit of approximately RMB2 million was made for the year under review. In its second full year of operation, the joint venture had successfully built its brand name in the Pearl River Delta as specialised in silicon steel, electro-galvanised steel and cold-rolled steel. The joint venture also secured a group of stable large customers in electrical appliances, computer and metal processing. Operational improvements were continuously made and ISO accreditation was obtained during the year. To cope with the growing demand, the joint venture is evaluating to add additional production line for enlarged production volume and diversified product range.

The economic downturn in the US coupled with keen competition from other nearby piers had caused the **Dongguan pier operation** to suffer from decline in volume of imported goods and containers handled. Despite the effort to further reduce its fixed costs to enhance competitiveness, the operation was still unable to achieve breakeven and recorded a loss of approximately HK$1.3 million. As for the **GFTZ fuel company**, the VSC Group successfully obtained several repayments of its outstanding guarantee return receivables from the GFTZ power plant after elaborate efforts. Further, the GFTZ power plant had committed a repayment schedule for the remaining balance. The VSC Group is still actively pursuing these receivables but has taken a more conservative approach in accounting treatment by a full write-off in prior year. In view of the poor performance of these two projects, the VSC Group intends to focus its business along its core competencies and would thus seek for opportunity to consolidate its investments and dispose of such non-core projects.

(D) MATERIAL OPERATIONAL IMPROVEMENT

Since late 2000, we introduced Total Cycle Time ("TCT") methodology in the VSC Group. Assisted by the US consultants of the Thomas Group, these practices were incorporated into various business processes across our operating units and business functions. We have witnessed the improvements and benefits obtained through the adoption of TCT in processes such as supply chain management, sales fulfillment, project management, sales and marketing, and many more. We thus strongly believe that such approach can continuously benefit the VSC Group in productivity gains and cost savings. The objective is to optimise the operating environment, where processes and people perform at their highest potential, producing real competitive advantages and higher financial returns.

TCT at the VSC Group in essence embraces the following elements:

1) teamwork using cross functional teams;

2) process map approach;

3) driver measurements to achieve results by cockpit chart;

4) barriers removal with root cause and substitute process analysis;

5) disciplined management of action-in-progress and effective meeting; and

6) continuous improvement to entitlement.

In order to more effectively implement the TCT methodology, the management had launched an internal survey to probe into the level of penetration of TCT in the VSC Group. Survey results will be used to design tailor-made TCT training for different levels and formulate subsequent communication programmes to achieve TCT internalisation throughout the entire organisation in the coming days.

Through the technological support from iSteelAsia, the VSC Group decided to invest in an advanced Oracle ERP system to improve its operational efficiency of all the business units and functions. The ERP system is a comprehensive package offering modules of finance and accounting, order taking, inventory management, production planning, project management, customer relationship management and so on, which can integrate the different computerised processes currently in use. The first finance and accounting module had successfully been implemented in June 2002 and it is expected to install the entire ERP system in the coming 2 years.

After successful implementation of the TCT internalisation and the ERP system, the VSC Group will be operating under a seamless environment and emerge to be more competitive and better-placed to maintain its leading role in the construction materials and industrial products industries.

(E) EMPLOYEE AND REMUNERATION POLICIES

In June 2002, the VSC Group employed 629 staff.

Department	Headcount June 2001	**Headcount June 2002**
Steel	64	**42**
Building Products	23	**26**
Coil Centre	120	**120**
Enclosure Systems	0	**354**
Plastics & Machinery	18	**14**
Corporate Support	62	**54**
Overseas Office	23	**19**
Total:	310	**629**

The VSC Group had introduced during the year 14 core competencies as the fundamental principles and concept that guide its staff to ensure continuous quality improvement. With these 14 core competencies in mind, our staff work together and the synergy they so create serves as a powerful drive to help attain the company goals.

1. Analytical Skills & Judgment
2. Business Sense
3. Communication
4. Continuous Improvement
5. Customer Focus
6. Flexibility & Adaptability
7. Interpersonal Sensitivity & Skills
8. Long Term Views
9. Negotiation
10. Networking
11. Personal Accountability/Commitment
12. Staff Development
13. Staff Management
14. Team Building

Salaries and annual bonuses are determined according to positions and performance of the employees. The VSC Group provides on-the-job training and training subsidy to its employees in addition to retirement benefit schemes and medical insurance. Total staff costs including contribution to retirement benefit schemes incurred during the year under review amounted to approximately HK$59 million. Up to the date of this annual report, no options have been offered and/or granted to any participants under the new share option scheme adopted since 12th November, 2001.