

## Chairman's Statement

In both the global and local scene, the year 2002 was a difficult year for most industries. While the worldwide economy recovered gradually in the middle of the year, the situation worsened again in the second half and was dampened by the geopolitical tension in the Middle East region. Locally, the first few months of 2003 were adversely affected by the Sars outbreak. Business and individual expenditures were significantly restrained under such a clouded economic outlook. However, through continuous effort and dedication, VSC still managed to improve its performance and earnings under such an adverse and turbulent operating environment.

### FINANCIAL PERFORMANCE

VSC's results for fiscal 2002/03 have demonstrated its resilience in a year marked by the successful change in the business model to emphasise on industrial processing and the China market. Consolidated turnover rose by 28.9% to HK\$2,756 million and profit attributable to shareholders amounted to HK\$60.4 million, almost fivefold of last year. Basic earnings per share ("EPS") was HK17.4 cents.

Against such an adverse backdrop, the management of VSC still holds shareholders' interest as its highest priority. A large-scale

repurchase plan was undertaken by the Company to provide liquidity to its shareholders. Given that the pricing of such repurchase was at a significant premium to the then market price but still at a substantial discount to the VSC Group's net asset value ("NAV"), the exercise proved to be a win/win scenario for both the VSC Group and its shareholders. Both NAV per share and EPS of the VSC Group were improved by the exercise, while the VSC Group's shareholders were given a chance to benefit from some liquidity under very "bearish" market sentiment.

Subsequent to the restructuring undertaken by the VSC Group during the previous financial year, VSC's business was divided into two distinct operations: China Advanced Materials Processing ("CAMP") and Construction Materials Group ("CMG"). CAMP has achieved very encouraging performance through much improved profitability, which in turn improved the VSC Group's overall performance for the year under review. Turnover and gross profit generated from CAMP amounted to HK\$472 million and HK\$94 million, contributing approximately 17% and 43% of the total turnover and gross profit, respectively. This achievement has successfully transformed VSC from a pure construction materials supplier in the local Hong Kong market to a leading industrial company in the Mainland China.

## INDUSTRY LEAD BUSINESS MODEL

### China Advanced Materials Processing ("CAMP")

Anticipating the rising demand and potential for steel processing service in China, the VSC Group embarked on the industrial processing business in 1995 with the first coil centre established in

Dongguan, the People's Republic of China ("PRC"), serving customers who are mostly OEM manufacturers of renowned consumer brands located in southern China. Our experiences in establishing the Dongguan coil centre, has helped lay a solid foundation from which VSC has expanded the industrial business and seen the setting up of four service centres in the PRC during the subsequent years. Currently, under the VSC Group's CAMP operations, there are, through wholly-owned or joint ventures structures, five processing plants that are strategically located in China and are in operation—three wholly-owned in Dongguan, Tianjin and Shenzhen and two partnerships in Nansha and Beijing, serving the industrially flourished northeastern and southern China regions.

Apart from targeting the traditional OEM white goods manufacturers, the two processing centres in Beijing and Tianjin will also be processing high quality steel products targeting the construction and automobile industries within the northeastern region.

To better focus on the rapidly growing business, CAMP was set up to oversee the VSC Group's industrial business in China. The division with its separate management structure is responsible for the overall strategic planning, operation and coordination of all present and future service centres.

Apart from the steel processing services, the VSC Group also provides an efficient logistic service which helps customers achieve just-in-time inventory level. Our responsive and premium logistics and after-sales services have further strengthened the VSC Group's competitiveness and position in the marketplace.



### Construction Materials Group ("CMG")

CMG is an established business providing stable incomes to the VSC Group. Founded in 1961, VSC is now one of the top stockholders and distributors of construction materials in Hong Kong, supplying quality and various types of construction materials and building products to developers mainly in China and Hong Kong. In order to achieve a diversified market mix and to minimise the risk of over reliance on any single market, the VSC Group has actively explored business opportunities in nearby regions, such as Macau and the Pearl River Delta region. The results from these regions have so far been encouraging.

In addition to the trading business, CMG also expanded its business scope to work with other international groups in offering and importing advanced construction equipment and techniques to China, e.g. piling. Riding on its market leader position, established network and reputation, CMG recorded an increase of 30.4% in turnover to HK\$2,280 million over the last year.

In view of the continuing increase in demand for high quality steel and economic growth in China, we expect the stable contribution from CMG to continue in the future.

### PROSPECTS

After decades of hard work and with the help of various professionals and advisors, VSC has established a strong foothold in the steel industry and built a worldwide business network. Going forward, we will capitalise on our core competencies of value-added processing, global network and supply chain management expertise to further develop our business in the burgeoning China market and consolidate our market position.

With the accession of China into the WTO and the dynamic changes in the global economy, the VSC Group must take the step to embrace opportunities arising through globalisation. For the last two years, the VSC Group has undergone many self-evaluation, restructuring and repositioning of its resources towards this end. The following are several key parameters that the VSC Group will focus its diversification efforts on to optimise usage of resources.

### Tap the Strongest Growing Economy

China has been and will be our focus. Turnover generated from the China market amounted to HK\$1,477 million in fiscal 2002/03, representing 54% of the total turnover as compared to 49% or HK\$1,038 million in fiscal 2001/02. The increase in turnover from the China market is further evidence that VSC is aiming at one of the world's fastest growing and emerging market, China. We believe the China operations, CAMP and the distribution business will become the VSC Group's growth engines in the coming years.

China is now the world's largest steel producer, consumer and importer. At times referred to as "the factory of the world", China's finished steel apparent consumption amounted to 186 million metric tonnes in 2002 and is projected to increase to 211 million metric tones in 2007.

According to statistics in developed countries such as the US, approximately 85% of steel is processed and provided by service centres while the ratio in China is currently only around 15%. This comparatively low penetration ratio opens the way for VSC to exploit business opportunities and expand. Moreover, steel is an essential and basic material for many industries. The rule of thumb, observed through years of trading in the steel industry, shows that a 1% of GDP growth will lead to a 1% growth in demand for steel. With robust economic growth expected to be approximately 7% per annum, China's demand for steel is expected to thrive.

### Target the Strongest Growing Sectors

Our strategy is to target the four fast growing steel-oriented industries in the PRC, namely information technology and telecommunications, home appliances, construction and automobile parts industry. All of them enjoyed high growth along with GDP growth and are expected to grow continuously in line with the rising consumer spending as a result of better living standards. As our service centres are strategically located in industrial hubs such as south and northeastern China for manufacturing centres of information technology and telecommunications products, automobile and home appliances, we are well positioned to capture the rising demand.

### Offer High Value-Added Processing Service

In order to enable the VSC Group to penetrate its intended target markets, we intend to set up a chain of professionally managed steel service centres in various strategic locations in China, providing high quality value-added processing service and international standard products.

**Expand Market Coverage** — The Beijing joint venture with the Beijing Shougang Group is principally engaged in the production of pre-painted galvanised steel sheets ("PPGI"), which is widely used in construction. It is expected to commence production in late 2003. The joint venture is well-timed to capture the growth of the flourishing property market of China and construction boom triggered by the 2008 Olympic Games and 2010 World Expo. Further, the Tianjin plant will commence operation in June 2003 serving the northeastern market.





**Enrich Product Offering** — In order to differentiate ourselves from the market, we will emphasise on providing high quality products of an international standard which the domestic production standard is not sufficient to meet the increasing expectation and requirement. Under the current steel import quota system, demand for premium quality domestic products of import quality is highly desirable. With greater processing capability and international standard products, VSC will be able to cater to the needs of its target customers.

### **Enhance Distribution Network**

Distribution and logistics management are our strengths. We will continue to develop and refine our distribution network in China and sourcing network globally. With a worldwide business network and knowledge in logistics management, VSC has been able to establish and manage an efficient global supply chain, sourcing and delivering high quality materials to customers in a timely manner. Currently, we, in conjunction with the iSteelAsia Group, operate nine offices spanning across China and intend to set up more offices to further enhance the distribution and processing networks.

Leveraging on purchasing advantage, global supply chain management expertise, and a variety of steel and multiple processing capabilities, the VSC Group will be able to cater to the needs of different industries. For better planning and service to customers, a regional headquarter will be set up in Shanghai in June this year to oversee operations in China.

### **People is Our Resources**

To strengthen the operations, a Value Enhancement Team, comprising management from each business unit, was set up to review the VSC Group's performance on a regular basis. The VSC Group also adopts the Total Cycle Time ("TCT") Methodology that helps further improve our performance in resources management and operation efficiency. Furthermore, the Oracle ERP system is applied as the backbone of the VSC Group's information technology structure to allow more accurate real time information flow, resulting in better resources management and lower reporting costs. These measures will be continued to better strengthen and equip VSC to meet its future challenges.

Our team of professionals is built upon core values highlighting teamwork and people, customer first and continuous improvement. These values are deeply rooted in our culture and aimed to create values for customers whilst delivering returns to shareholders.

VSC strives to be the best total solution provider for materials in the China market through global supply chain management and value-added processing.

## APPRECIATION

I would like to thank the Board of Directors and staff for their dedication and hard work, and shareholders and business associates for their continuous support and guidance that brings the success today.

**Yao Cho Fai, Andrew**

*Chairman & CEO*

10th June 2003

