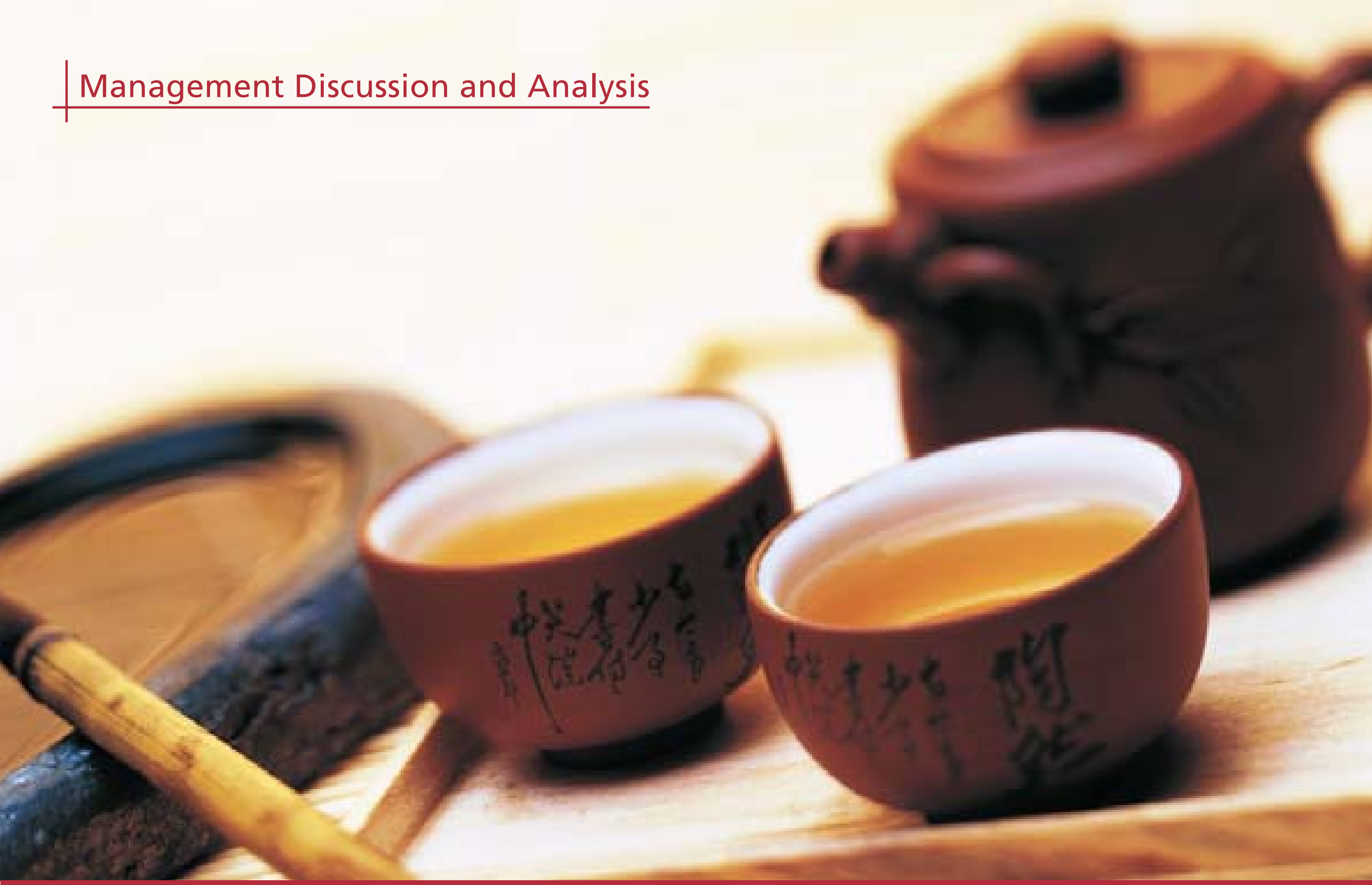


Management Discussion and Analysis

(A) CHINA ADVANCED MATERIALS PROCESSING ("CAMP")

In order to better consolidate its business and facilitate a clearer organisation and operational structure, the management of the VSC Group decided to rename its Industrial Products Group as "CAMP". The new name better reflects the VSC Group's focus and efforts on targeting a niche part of the market, namely the provision of steel and related materials processing services to the industrial manufacturers in Mainland China. Under the new organisation structure, the VSC Group's CAMP operations cover three business units, 1) its coil centre operations in Dongguan, Tianjin and Nansha, which provide rolled steel processing services to various manufacturing industries of white goods, electrical appliances and computers in the respective regions; 2) the manufacturing of customised enclosure systems in Shenzhen, which carries out a variety of precision metal processing services like punching, bending, coating and assembly for the telecommunication, automobile and other industries; and 3) the distribution of engineering plastic resins and injection moulding machines to industrial manufacturers of household appliances, audio/video equipments, telecommunication applications and computers located in China. All these business units' value proposition centres around one theme — adding value to the supply chain in the selected high-growth industries by positioning as a crucial intermediary between the raw materials suppliers and downstream industrial manufacturers. Over the past decades, China has established itself as a manufacturing hub of the world. With an abundant supply of relatively cheap labour and vast market potential to lure foreign investors, the country has achieved rapid growth to become one of the major workshops in the global manufacturing system. It is expected that the CAMP operations will gradually become a more prominent profit engine of the VSC Group and will be the focus of the VSC Group's business development. For 2002/03, approximately 17% and 43% of the total turnover and gross profit, respectively of the VSC Group were attributable to its CAMP operations.

1. Coil Centre Operations

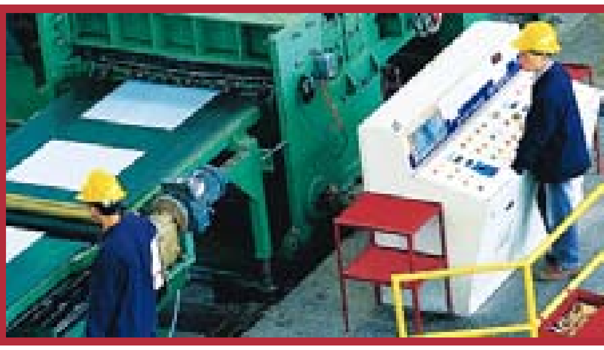
The coil centre operations of the VSC Group include its two wholly-owned factories in Dongguan and Tianjin as well as its 14% investment in the joint venture company in Nansha. All three coil centres carry out or will be carrying out the processing of large steel coils such as slitting, cutting and leveling into smaller steel coils or flat sheets. These end products processed to the shape and quantity as specified by the customers are delivered just-in-time to the customers' production lines for their manufacturing of various industrial products. The coil centre operations enjoy a healthy profit margin by offering a suite of value propositions to its customers including lower inventory holding costs through just-in-time processing, better supply chain management through working more closely with the customers' operational people, the lowering of production costs through the reduction in raw material scrap and materials handling costs, ensured quality, and flexible and reliable supply.

The **Dongguan coil centre**, which started in 1995, is the VSC Group's first venture into steel processing business. Despite the cyclical movement of steel price, the Dongguan coil centre continues to perform strongly with an increase in turnover of about 25% over the past 3 years. For the year under review, both turnover and profit before allocation of corporate overhead soared to a record high of approximately HK$277 million and HK$57 million, respectively, representing a 18% and 70% increase over the previous year. Apart from the healthy growth and sustainable profitability achieved by the Dongguan coil centre, it stood out as the most profitable operation within the VSC Group. Such sustainable growth of profit stems from a combination of excellence in customer development, supply chain management and operational process improvement. As for customer development, the Dongguan coil centre has successfully built a portfolio of key customers who engage in the production of computers and electrical appliances and are able to provide a significant amount of business to the coil centre throughout the year. During 2002/03, the top ten customers accounted for over 50% of the total sales revenue. These major customers are very well established and credible Taiwan-based or Hong Kong-based OEM located at the Pearl River Delta region with their end products mainly exported to the US and European markets for end customers like Dell and Compaq. By focusing on quality, commitment and proactive initiatives, strong, stable and long-term relationships have thus been forged between the Dongguan coil centre and its customers. As for supply chain management, the Dongguan coil centre continues to obtain competitive sourcing from large steel mills in Japan, Korea and

Taiwan. Together with the high volume purchasing of steel coils distribution of the iSteelAsia Group, the Dongguan coil centre is able to place bulk purchase orders at highly competitive and favourable price and terms as compared to other coil centre operators. The experienced steel distribution arm of the iSteelAsia Group also assists in the steel procurement activity, studies the materials requirements of the coil centre's customers in terms of quality and standard and advises on the updated market price trend. As for operational process improvement, the Dongguan coil centre is run by a team of local professionals compensated by an incentive scheme that is pegged to their ability to achieve ongoing process improvement in various areas such as production efficiency, quality control, scrap reduction and customs book-matching. Professional quality management tools such as "5S program", Total Cycle Time ("TCT") and ISO9000:2000 accreditation are also used to maintain production standard and efficiency. In view of the past performances and return to the VSC Group, the VSC Group has further invested an additional automated slitting machine by early 2003 to increase the production capacity of Dongguan coil centre.

The coil centre operation in China has proven to be a sound and profitable business model for the VSC Group. To further develop its competitive edge and differentiate itself from other stand alone coil centre operators, the VSC Group has after an extensive market research commenced setting up a new coil centre operation in Tianjin towards the end of this financial year. The **Tianjin coil centre** is located at the Tianjin Economic — Technological Development Area ("TEDA"), and will be occupying a factory area of about 13,000 square metres. With its proximity to Tianjin New Harbour (2 kilometres via road) and supported through a network of national highways, the Tianjin coil centre is well positioned to attain high efficiency in the inbound and outbound logistics arrangement. The Tianjin coil centre is also in close vicinity to the new plant of a world-class car manufacturer. Targeting the industrial manufacturers in northern China, the Tianjin coil centre aims at serving customers within 800 kilometres around Bohai, covering customers in Tianjin, Beijing, Shandong, Liaoning and Hebei. The VSC Group is very optimistic with the investment as its internal market research indicates that there is strong demand of steel processing services from industries of household appliances, electronics equipments, transformer, lift and automobile in these regions with limited competition from a few existing domestic coil centres. Leveraging on the well established operational set up of its Dongguan coil centre, the VSC Group anticipates that it can greatly reduce the initial set up cost and production ramp up time in the Tianjin coil centre by transferring the knowhow of Dongguan to this new facility. The production is expected to commence by the financial year 2003/04 with an initial estimated monthly output of about one-third of the Dongguan coil centre. The VSC Group will carry out further market studies to explore other coil centre opportunities in different strategic manufacturing regions in China, for example areas like Shanghai or Guangzhou where both have strong demand in the steel processing services.

The VSC Group's 14% investment in **Baosteel Jingchang joint venture** in Nansha also recorded similar satisfactory results in its fourth year of operation. Annual sales of the joint venture continued to rise to over RMB250 million and exceeded 60,000 metric tonnes in tonnage for the year 2002. Profitability was also improved by more efficient productivity, customer services and quality control. Net profit for the financial year under review thus reached approximately RMB4 million and dividend received based on distributable profit amounted to about RMB0.2 million. Although the VSC Group's involvement is purely as a small minority investor, the VSC Group in return gained invaluable experience from its two partners, the Shanghai Baosteel Group and Japan Mitsui Group. Targeting the growing demand of processed steel in the Pearl River Delta region from customers who are engaged in electrical appliances and automobile parts, the Nansha joint venture has decided to invest about RMB12 million to expand production area of 1,000 square metres with the addition of new machineries. The new capital expenditure will be financed by the joint venture with its own internal resources and does not require additional investment from the VSC Group. It is expected that after the completion of the new production line by the end of 2003, the annual production capacity can be raised by 80% or 50,000 metric tonnes to a total of 110,000 metric tonnes annually, further enhancing the company's competitiveness in the market.



2. Enclosure Systems Manufacturing

The **VJY enclosure systems manufacturing ("VJY")** is expected to be another high-growth unit of the VSC Group's CAMP operations. Unlike the Dongguan and Tianjin coil centres, VJY moves further downstream to provide precision and comprehensive (some assembly operation included) steel and metal processing services. Equipped with advanced Germany "Trumpf" punching and bending machines as well as assembly lines with automatic powder and paint spray, VJY focuses on serving well-known telecommunication customers including Huawei, Zhongxing and Emerson Electric of the US with customised enclosure systems to house their own-branded telecommunication and information technology equipments.

In the first full year of production by its new plant at Henggang of Shenzhen, VJY has made satisfactory progress and improvement in smoothing production processes to raise capacity and efficiency. Turnover for 2002/03 increased by sixfold and amounted to approximately HK$40 million, deriving mainly from sales of customised enclosure systems such as cabinets, racks, metal boxes and accessories to the two domestic telecommunication giants, Huawei and Zhongxing. To qualify as the approved vendor of these customers, VJY has to excel in manufacturing quality and efficiency, passing the stringent audit requirements of these customers in respect of quality, responsiveness and technical design. However, competition remains strong as VJY has to compete with other existing suppliers through an open bidding process that consists of price, quality and other terms. VJY manages its inventory through monitoring the PRC and global telecommunication market trend very closely to give it a more accurate assessment of demand volumes and trends. VJY has also invested heavily in moulds for making prototypes to shorten products development and approval cycle time. Such one-off investments contributed significantly to high fixed costs for the year 2002/03 absorbed by the turnover and a loss before allocation of corporate overhead of approximately HK$6 million was resulted.

VJY will continue to streamline its production processes and vigorously implement cost reduction measures to lower materials costs and manufacturing expenses.

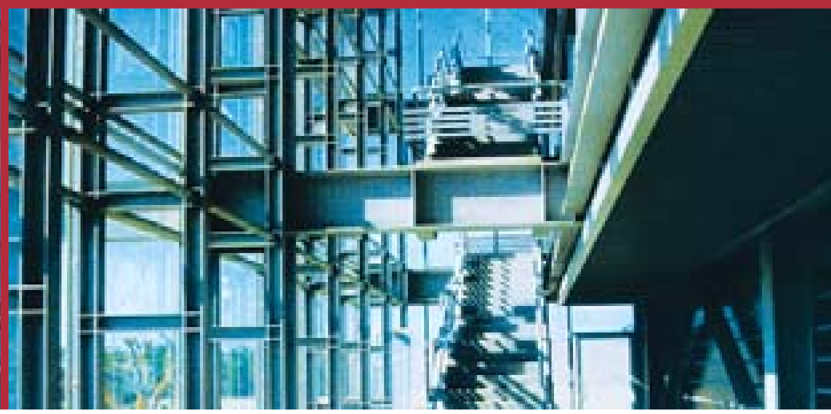
Using key account management and the introduction of a new sales commission programme, VJY aims to increase its sales to surpass the RMB100 million mark in the coming few years with net profit contribution to the VSC Group. Sales growth opportunities would be generated from the existing customised enclosure systems as well as the development of standard cabinets for general industrial use through appointment of distributor channels. Capitalising on its ability to do precision toolings, VJY has also branched out to target the high-growth automobile industry. VJY has secured order from Isuzu to supply over 1,000 different parts for its passenger buses. The VSC Group intends to leverage off these experiences to build its core competence and team of expertise for the provision of advanced steel and metal processing services in automobile parts manufacturing.

3. Plastics and Machinery Distribution

The VSC Group's third business unit under its CAMP operations is the distribution of a full range of engineering plastic resins and injection moulding machinery. Serving mainly the industrial manufacturers in southern China, this business unit has enjoyed cross-selling synergy with another CAMP operation, Dongguan coil centre, in sharing similar customer portfolio.

For the year under review, the **plastics division** recorded a slight 9.4% increase in turnover to approximately HK$149 million and achieved profit before allocation of corporate overhead of approximately HK$7 million. The division has expanded the customer base by providing logistics and technical support solutions to satisfy the customers' sourcing needs. The VSC Group also works closely with its new suppliers such as Samsung and Mitsubishi to promote their resins by providing feedback on market trends and customers' requirements. After a careful assessment of the market potential and corresponding distribution channel, the division decided to restructure its effort in penetrating the domestic market in Mainland China and as a result withdrew from its local partnership in Shunde during the year. Instead, the division aims to explore the local market by setting up a wholly-owned trading company in Shenzhen. Furthermore, discussion is underway with a major supplier on securing the distribution right of its new plastic resins compounding factory to be opened at Dongguan. The division also plans to grow its sales force and engineers to meet the increasing demand from a wider range of both Hong Kong and domestic customers.

The **machinery division** recorded an 11.7% drop in revenue where profit



contribution was down by 36.6%. Sentiment for new capital investment on machinery, especially for the costly high-end Japanese injection moulding machinery of the division, is still weak under the current tough economic environment. The division thus received less commission and parts sales revenue but more robot sales of relatively lower profit margin. To combat the reduced profitability, the division will diversify its income stream by offering an annual maintenance programme to its customers.

(B) CONSTRUCTION MATERIALS GROUP ("CMG")

After reviewing its corporate strategy, and in light of the current economic outlook in Hong Kong, the VSC Group decided to restructure the scope and focus of its construction materials businesses to expand its CMG coverage to Mainland China to tap the booming market potential, particularly in major cities like Shenzhen, Shanghai and Beijing as well as Macau where a lot of construction works are expected to be carried out. As such, CMG now includes business units of the VSC Group, which are engaged in distribution of steel products and building products in both Hong Kong and Mainland China. Resources are reallocated and the internal corporate structure has been modified to facilitate the business expansion of CMG beyond Hong Kong. This strategic move is necessary since construction activities in Hong Kong are expected to continue to shrink as a result of the poor economy and weak property market. During the year 2002/03, the HKSAR Government announced a series of new measures to stabilise the housing market, including the suspension in 2003 of land auctions and of development tenders by the two railway companies. The 70% home ownership target set previously was officially put to an end. These measures add further pressure and uncertainty on both public and private housing sectors thus slowing any future demand of construction materials in Hong Kong. By contrast , the VSC Group observed a much more favourable market potential in Mainland China for its CMG to thrive. The accession into WTO by China, hosting of 2008 Olympic Games in Beijing and 2010 World Expo by Shanghai and new casinos and hotels development in Macau are all potential markets for demand of the VSC Group's construction materials. For 2002/03, approximately 83% and 56% of the total turnover and gross profit, respectively of the VSC Group were attributable to its CMG operations.

1. **Steel Distribution**

The major business unit of the VSC Group's CMG operations is steel distribution, which embodies stockholding business of rebars, H-piles, sheet piles and related products in Hong Kong, distribution of mainly domestic steel products in eastern China through its 66.7% owned joint venture, Shanghai Bao Shun Chang ("BSC"), steel distribution in Mainland China together with its 19.2% investment in the iSteelAsia and distribution of colour-coated steel sheets in Beijing for its 7.5% owned joint venture with the Beijing Shougang Group.

Amid the challenging construction market situation in the year under review as a result of the marcoeconomic environment and the previous price war among rebars suppliers in Hong Kong, the **Hong Kong steel stockholding department** finished the year 2002/03 with a 10.7% increase in turnover and a 14.5% increase in gross profit. Performance of the rebars stockholding business is satisfactory given the adverse market. Sales in both tonnage and dollar value remained at similar level as in the prior year while gross profit decreased by 11.3%. Using key account management and centralised project database, the sales team identified the contractors and developers who are most active in the construction industry as its top customers. Tailor-made supports on price, quality, delivery and communication are rendered to these customers to help maintain the sales volume in a declining market. The profitability was however restricted by the low-price sales contracts previously signed. Currently, the department's contracts-on-hand totalled about HK$600 million. With the recovery of rebars price driven up by the Iraqi war and the global supply and demand factors, the department aims to maintain a sustainable profit contribution to the VSC Group.

Encouraging progress has been made in developing the structural steel businesses. Both turnover and gross profit increased significantly as the department diversifies its products to H-piles, sheet piles, construction beams plus other construction steel and extends its market to Macau. This business development is facilitated by building necessary engineering expertise together with selected alliance with competitive structural steel suppliers. Demand for these products in foundation and superstructure works in Hong Kong, Macau and Shanghai could offer room for higher profit margin sales growth to compensate shrinkage in the rebars business. The VSC Group is actively exploring to introduce new technology into Shanghai by a more environmental friendly piling method, which would have huge potential application on the old town redevelopment and the local soil condition.

The VSC Group continued to develop a total solution package to the construction materials customers by its coupler and soil nail businesses. Turnover was increased steadily with positive profit contribution made for the year. With the continuous improvement in production in terms of quality and on time delivery, the VSC Group has gradually built its reputation to enlarge its market share and secure a few key customers. Sizeable jobs has been awarded, leading to improved efficiency in purchasing and production planning. Oracle ERP system is also applied to automate the order processing and inventory flow.

The VSC Group's 66.7% joint venture with the Shanghai Baosteel Group, **BSC**, has achieved very fruitful results. Turnover rose 20.1% to approximately HK$497 million and net profit contribution before minority interests amounted to about HK$10 million

for the year 2002/03. Due to the booming economy in Mainland China, substantial increase in steel prices during the year and the high demand for Baosteel products, BSC has benefited much in expanding its distribution business of domestically produced colour-coated steel sheets and other flat products, thus becoming a contributor to the CMG operations. Both joint venture partners are encouraged by BSC's performance and will continue to explore various ways to support the business growth of BSC and from time to time to provide the necessary funding through direct financing and bank guarantees arrangement.

China's steel market has been characterised over the past decade by demand consistently outpacing supply. Despite being the largest steel producer in the world, China remains a net importer of steel with a globally leading projection of apparent consumption of finished steel of 192 million metric tonnes in 2003. While the Hong Kong steel market for rebars, piles and beams is slightly over 2 million metric tones per annum, the move of the VSC Group to expand its steel distribution to Mainland China will no doubt enhance the pace of growth tremendously. Leveraging on iSteelAsia Group's steel distribution network and connections in the major cities, the VSC Group has cautiously developed the steel distribution business by targeting reputable end users and distributors. Turnover arising from such distribution for 2002/03 amounted to approximately HK$217 million and marginal profit was recorded. Coupled with the ongoing purchasing arrangement with the iSteelAsia Group in which steel products of approximately HK$287 million were sold to the iSteelAsia Group, the VSC Group achieved over half a billion dollar annual sales for imported steel distribution business in China, which helped the VSC Group to build a business of sizeable volume with economies of scale on sourcing and customer development.

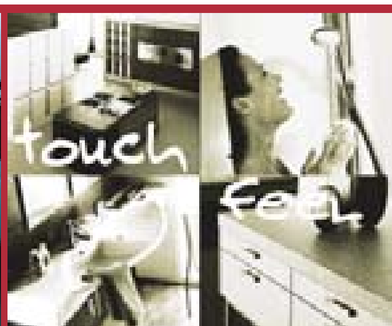
Last but not least within the year under review, the VSC Group took a 7.5% stake in a new Beijing joint venture company with the Beijing Shougang Group for manufacturing of colour-coated steel sheets. The factory is expected to commence production by late 2003. The VSC Group has secured at least 50% distribution rights of the finished products and can also participate in supplying the basic raw materials to the joint venture. The VSC

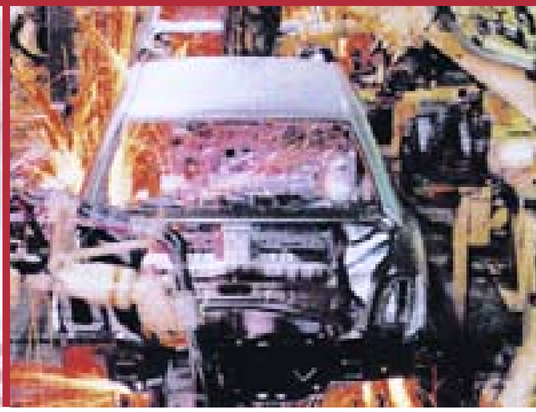
Group is thus well positioned to capture the booming demand as instituted by construction of infrastructures, stadiums, exhibition centres and hotels for the upcoming events of Olympic Games and World Expo in Beijing and Shanghai.

2. Building Products

As compared to the prior year, the **building products department** improved its performance by a 152% increase in turnover to approximately HK$141 million and a 70% reduction of loss from operation, down to approximately HK$2 million. Although the turnover was largely increased from mainly the progress completion of several large kitchen cabinets installation contracts concluded in previous year, the general weak property market in Hong Kong has suppressed the demand in both price and quantity of sanitary wares for project sales and retail. As such, the department as a whole has still not secured enough revenue in the year under review to absorb its fixed overheads for a profitable situation. To address this problem, the department has taken further initiatives to return to profitability. On the revenue side, new sales outlets and distribution channels in Hong Kong and Macau have been set up to expand sales coverage of the Toto and Laufen sanitary wares. The marketing team has also launched extensive advertising programmes and campaigns subsidised by the suppliers to raise awareness and market penetration of the brands. The Sales team have been revamped and offered with higher focus on sales commission rates for incentive. The VSC Group also obtains the distribution rights of Toto sanitary wares on wholesale basis in the Greater Shanghai area as well as priority treatment in China for project customers. A wholly-owned trading company has been formed in Shanghai to handle this domestic distribution business. On cost side, various efforts are spent to reduce operational expenses such as streamlining manpower, centralising storage facilities, lowering inventory level and combining offices of headquarter and showroom.

The department currently has contracts-on-hand worth around HK$63 million. Major outstanding projects include the supply and installation of kitchen cabinets and bathroom sanitary wares for 16 Wylie Road, King's Park, Kowloon Station Package II Phase 2, and LL8955, Sai Wan Ho. These long-term contracts-on-hand have reduced compared to prior years as a result of the decision to scale down the sizeable kitchens installation business. The continual contraction in the property market has reduced the profitability of these types of contracts and made them unviable after taking into account the significant uncertainties and risks inherent with long-term projects. The department has thus preferred to focus its resources on shorter-





term projects and the supply of sanitary wares and installation of kitchen cabinets for individuals or projects that do not overly burden the VSC Group's resources.

Leisure Plus, the first retail outlet with a showroom, opened in April 2002 and received encouraging feedback. To attract more shoppers, the showroom has been extended to the ground floor of the same building at Wanchai in early 2003. The enlarged retail outlet will serve the objectives of arousing market awareness, enhancing the company image and offering an elegant environment for targeted customers to experience the characteristics of our products.

(C) OTHER INVESTMENT

On May 2002, the VSC Group increased its equity interest in **iSteelAsia.com Limited ("iSteelAsia")** from 17.8% to 19.2% through share swapping and the disposal of shareholding in iMerchants Limited. The VSC Group is delighted to observe that **iSteelAsia and its subsidiaries (together the "iSteelAsia Group")** continues to improve in financial performance since its listing on the GEM Board of the Hong Kong Stock Exchange. For the nine-month period ended 31st December 2002, the iSteelAsia Group recorded a turnover and profit attributable to shareholders of approximately HK$518 million and HK$7.8 million, respectively. Increase in turnover was over 71% as compared to the corresponding period last year and profitability was restored from a loss-making position.

The iSteelAsia Group has expanded its steel distribution network in Mainland China along the major cities like Beijing, Shanghai, Guangzhou, Tianjin, Shenzhen and Chongqing. Through this enhanced network and focus on providing quality customer services, the iSteelAsia Group has built strong and coherent relationships with its customers to achieve the aforemention growth in turnover. Various strategies have also been adapted to address the volatilities of the steel market so as to improve the profit margin, such as building up long-term relationships with suppliers and customers to improve the forecast of demand and supply.

The VSC Group will, as previously agreed, continue to source and supply steel to the iSteelAsia Group to facilitate its expansion of steel trading operations and obtain bulk purchase savings by aggregating demand of the two groups. The VSC Group will continue to monitor this investment proactively for better business synergy opportunities for both the VSC Group and the iSteelAsia Group to utilise resources and enhance business efficiency.

OPERATION REVIEW

1. Total Cycle Time ("TCT")

The VSC Group continues to practise the TCT methodology across all its business units and key processes. Extensive internal trainings are organised during the year to internalise the knowledge and application to staff of all functions and at all levels. We continue to reap the benefits through the adoption of TCT in processes such as supply chain management, sales fulfillment, project management, sales and marketing, and many more. Supporting units like accounting, MIS and human resources departments are all applying TCT to their own processes to reduce cycle time, improve first pass yield and cut costs. The management remains committed to adopting the following key elements of TCT in the pursuit of business development, namely:

1) teamwork using cross functional teams;
2) process map approach;
3) driver measurements to achieve results by cockpit chart;
4) barrier removal with root cause and substitute process analysis;
5) disciplined management of action-in-progress and effective meetings; and
6) continuous improvement to entitlement.

2. Oracle Enterprise Resources Planning ("ERP")

Implementation of the Oracle ERP system is in progress. The standard finance and accounting module has been installed for both Hong Kong and China operations for keeping accounting books and management reporting. A tailor-made module for banking facilities management is used to help monitor treasury function. Order management, inventory and purchasing modules are applied to the steel distribution business in Mainland China and the production of couplers and soil nails in Hong Kong. The VSC Group is also one of the few leading organisations which runs its website and ERP system on Linux. By using the free Linux as its Operating System ("OS"), savings have been made in initial investment and recurring maintenance costs. By investing in the ERP system, the VSC Group aims to improve its operational efficiency of all the business units and functions through standardisation and automation. The other modules of ERP system such as business intelligence, production planning, project management, customer relationship management and so on, would be gradually installed to meet the business development progress of the VSC Group.

3. Employee and Remuneration Policies

In June 2003, the VSC Group employed 879 staff. The increase in number of employees is mainly due to the expansion of VJY and the new Tianjin coil centre.

Department	Headcount June 2003	Headcount June 2002
CAMP		
— Coil Centres	**142**	120
— Enclosure Systems	**580**	354
— Plastics & Machinery	**14**	14
CMG		
— Steel	**43**	42
— Building Products	**27**	26
— Shanghai Offices	**22**	19
Corporate Support	**51**	54
Total:	**879**	629

Salaries and annual bonuses are determined according to the position and performance of the employees. The VSC Group provides on-the-job training and training subsidies to its employees in addition to retirement benefit schemes and medical insurance. In-house trainings for staff development such as TCT certification, time management, supervisory management, interpersonal communication and appraisal skills are provided to broaden the knowledge and skills of staff. The VSC Group also organises and sponsors various recreational activities for its staff to foster relationships and promote a unified family atmosphere, including hiking, sports competition, attending Boundabout, trip to Macau and annual dinner. Total staff costs including contribution to retirement benefit schemes incurred during the year under review amounted to approximately HK$66 million. During the year under review, options to subscribe for 10,500,000 shares have been offered and/or granted to participants under the new share option scheme adopted since 12th November 2001.

CORPORATE GOVERNANCE & ENHANCEMENTS TO SHAREHOLDER VALUE

The VSC Group is committed to ensuring high standards of corporate governance in the interests of its shareholders. As a medium size listed company with an almost 10 year listing history, the VSC Group has continued to evolve and reform its corporate practices and structure to facilitate better corporate governance, and ultimately enhance shareholder value. In this regard, the efforts and principles as adopted by the VSC Group are as follows:

1) **The Board and senior management** — The Board consists of four executive directors and four non-executive directors (of whom three are independent). The executive directors are responsible for managing the overall business and implementing corporate strategies. The non-executive directors are all senior business executives who advise the executive directors and management on business strategies and development. The Board has regular whole day meetings throughout the year with the heads of various business units to discuss major business plans and review

operation and financial performance. Seasoned independent advisers with diversified industry expertise and experience are invited to join the meetings wherever necessary. The executive directors together with a team of senior management including the Chief Operating Officer, Human Resources Director, Chief Information Officer and Head of Marketing form a Value Enhancement Team to regularly meet with different business units to monitor their performance and provide corporate support.

2) **Audit committee** — The audit committee has been set up since December 1998 and consists of three non-executive directors (of whom two are independent). The audit committee meets twice a year to review and discuss the various internal control and audit issues. It also reviews the interim and final financials and recommends to the Board for approval. The VSC Group during the year has strengthened the role of its internal audit team and expects to solicit more advice and input from the audit committee to further improve its internal control system.

3) **Code of best practice** — The Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the accounting year covered by the annual report, except that the non-executive directors are not appointed for specific terms. However, the non-executive directors are subject to retirement by rotation and re-election at annual general meeting in accordance with the Company's Bye-laws.

4) **Investor relationship and communication** — The VSC Group reckons the importance of promoting transparency and maintaining effective communication with investors, analysts and press. During the year, extensive initiatives were taken to achieve this end. Financial public relationship firms are appointed to arrange meetings and plant visits for various interested investors and analysts. The website has been completely revamped with detailed company information and announcements posted on our websites for easy access. The VSC Group continues to maintain a high level of transparency in information disclosures. Its annual report, for example, has been mentioned by the Judges' Report of the HKMA Best Annual Report Awards for two consecutive years. The 2002 annual report was referred to in the report as one of the few companies, which provided useful information for investors to assess a company's financial health, strategies and outlooks.

5) **Share repurchase** — Consistent with its objective to enhance shareholder value, the Company announced on November 2002 a conditional voluntary cash offer to repurchase up to approximately 53.2 million shares of the Company at an offer price of HK$0.98 per share payable in cash. The offer not only increases the net asset value per share as well as earnings per share but also provides an attractive exit mechanism for the shareholders who wish to realise their investments in the Company's shares at an attractive price without having to suffer from a significant discount to the prevailing share price. The offers were subsequently approved by the shareholders and received overwhelmingly responses of acceptances of about 78.2 million shares from the shareholders.