VSC万顺昌

VAN SHUNG CHONG HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 1001)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2005

UNAUDITED INTERIM RESULTS

The Board of Directors (the "Board") of Van Shung Chong Holdings Limited ("VSC" or the "Company") hereby announces the unaudited condensed consolidated financial information of VSC and its subsidiaries (the "VSC Group") as at and for the six months ended 30th September 2005, together with comparative figures, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th September 2005

	Notes	For the six months ended 30th September 2005 HK$'000 (Unaudited)	2004 HK$'000 (Unaudited and restated)
Turnover	3,4	**2,313,673**	1,927,422
Cost of sales		**(2,191,446)**	(1,816,471)
Gross profit		**122,227**	110,951
Other gains – net	5	**5,828**	5,809
Selling and distribution expenses	6	**(14,325)**	(13,476)
General and administrative expenses	6	**(62,527)**	(67,152)
Operating profit		**51,203**	36,132
Finance costs	7	**(20,968)**	(7,377)
Profit before income tax		**30,235**	28,755
Income tax expense	8	**(4,254)**	(2,149)
Profit for the period		**25,981**	26,606
Attributable to:			
Equity holders of the Company		**21,976**	23,795
Minority interests		**4,005**	2,811
		25,981	26,606
Dividends	9	**–**	–
Earnings per share for profit attributable to equity holders of the Company during the period	10		
– Basic		**6.0 HK cents**	6.5 HK cents
– Diluted		**6.0 HK cents**	6.4 HK cents

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th September 2005

	Notes	As at 30th September 2005 HK$'000 (Unaudited)	As at 31st March 2005 HK$'000 (Restated)
Non-current assets			
Property, plant and equipment		**101,107**	103,012
Investment properties		**77,488**	71,100
Leasehold land and land use rights		**22,884**	23,091
Goodwill		**6,775**	8,026
Investment in associates		**5,834**	2
Deferred income tax assets		**13,517**	13,797
Available-for-sale financial assets		**12,642**	–
Non-trading securities		**–**	34,101
Derivative financial instruments		**390**	–
Total non-current assets		**240,637**	253,129
Current assets			
Inventories		**824,751**	895,846
Due from customers on installation contract work		**14,272**	14,616
Prepayments, deposits and other receivables		**144,249**	161,820
Accounts and bills receivable	11	**785,701**	736,758
Loans receivable		**–**	6,491
Derivative financial instruments		**2,477**	–
Pledged bank deposits		**15,446**	12,186
Cash and bank deposits		**129,485**	191,986
Total current assets		**1,916,381**	2,019,703
Current liabilities			
Borrowings		**927,679**	910,903
Accounts and bills payable	12	**244,171**	364,938
Due to customers on installation contract work		**122**	942
Receipts in advance		**39,103**	31,940
Accrued liabilities and other payables		**45,166**	55,394
Current income tax liabilities		**14,002**	12,637
Total current liabilities		**1,270,243**	1,376,754
Net current assets		**646,138**	642,949
Total assets less current liabilities		**886,775**	896,078
Non-current liabilities			
Borrowings		**138,889**	166,667
Deferred income tax liabilities		**116**	369
Total non-current liabilities		**139,005**	167,036
Net assets		**747,770**	729,042
Equity			
Share capital		**36,861**	36,861
Reserves		**670,560**	656,804
Equity attributable to equity holders of the Company		**707,421**	693,665
Minority interests		**40,349**	35,377
Total equity		**747,770**	729,042

NOTES:

1. **Basis of preparation and accounting policies**

This unaudited condensed consolidated financial information is prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

This unaudited condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31st March 2005.

The accounting policies and methods of computation used in the preparation of this unaudited condensed consolidated financial information are consistent with those used in the annual financial statements for the year ended 31st March 2005, except that the VSC Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards ("HKFRS") and HKASs which are effective for accounting periods commencing on or after 1st January 2005.

This unaudited condensed consolidated financial information has been prepared in accordance with those HKFRS and interpretations issued and effective as at the time of preparing this financial information. The HKFRS and interpretations that will be applicable at 31st March 2006, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing this financial information.

The changes to the VSC Group's accounting policies and the effect of adopting these new policies are set out in Note 2 below.

2. **Changes in accounting policies**

(a) *Effect of adopting new HKFRS*

During the six months ended 30th September 2005, the VSC Group adopted the new/revised HKFRS below, which are relevant to its operations. The comparatives for the six months ended 30th September 2004 and as at 31st March 2005 have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKAS-Int 15	Operating Leases – Incentives
HKAS-Int 21	Income Taxes – Recovery of Revalued Non-Depreciated Assets
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 28, 33 and HKAS-Int 15 and 21 did not result in substantial changes to the VSC Group's accounting policies. In summary:

– HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associates and other disclosures.

– HKASs 2, 7, 8, 10, 16, 23, 27, 28, 33 and HKAS-Int 15 and 21 had no material effect on the VSC Group's policies.

– HKAS 21 had no material effect on the VSC Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the VSC Group entities have the same functional currency as the presentation currency for respective entity financial statements.

– HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for goodwill. Until 31st March 2005, goodwill was:

– Amortised on a straight-line basis over a period ranging from 5 to 20 years; and

– Assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3:

– The VSC Group ceased amortisation of goodwill from 1st April 2005;

– Accumulated amortisation as at 31st March 2005 has been eliminated with a corresponding decrease in the cost of goodwill; and

– From the year ending 31st March 2006 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

The VSC Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this reassessment.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land and land use rights are expensed in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement. In prior years, the leasehold land was accounted for at cost less accumulated depreciation and accumulated impairment.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of available-for-sale financial assets. It has also resulted in a change in the recognition, measurement and classification of derivative financial instruments. Certain foreign exchange contracts which do not qualify for hedge accounting, are initially recognised at fair value on the date on which such derivative contracts are entered into and subsequently remeasured at their fair value. Changes in fair value of the derivatives are recognised immediately in the income statement.

The adoption of revised HKAS 40 has resulted in a change in the accounting policy of which the changes in fair values are recorded in the income statement as part of other gains. In prior years, the increases in fair value were credited to the investment properties revaluation reserve. Decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the income statement.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31st March 2005, the provision of share options to employees and participants did not result in an expense in the income statement. Effective on 1st April 2005, the VSC Group expenses the cost of share options in the income statement. As a transitional provision, the cost of share options granted after 7th November 2002 and had not yet vested on 1st January 2005 was expensed retrospectively in the income statement of the respective periods.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the VSC Group require retrospective application other than:

– HKAS 16 – the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;

– HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis;

– HKAS 40 – since the VSC Group has adopted the fair value model, there is no requirement for the VSC Group to restate the comparative information, any adjustment should be made to the retained earnings as at 1st April 2005, including the reclassification of any amount held in revaluation surplus for investment properties;

– HKFRS 2 – only retrospective application for all equity instruments granted after 7th November 2002 and not vested at 1st January 2005; and

– HKFRS 3 – prospectively after the adoption date.

Effect of adopting HKASs 17, 32, 36, 38, 39, 40 and HKFRS 2 and 3 on the condensed consolidated income statement is as follows:

For the six months ended 30th September 2005	HKAS 17 HK$'000 (Unaudited)	HKASs 32 and 39 HK$'000 (Unaudited)	HKASs 36 and 38 and HKFRS 3 HK$'000 (Unaudited)	HKAS 40 HK$'000 (Unaudited)	HKFRS 2 HK$'000 (Unaudited)	Total HK$'000 (Unaudited)
Increase in other gains – net	–	–	–	6,388	–	6,388
Decrease/(increase) in general and administrative expenses	112	(657)	822	–	(57)	220
Increase/(decrease) in profit attributable to equity holders of the Company	112	(657)	822	6,388	(57)	6,608
(Decrease)/increase in basic earnings per share (HK cents per share)	–	(0.2)	0.2	1.7	–	1.7
(Decrease)/increase in diluted earnings per share (HK cents per share)	–	(0.2)	0.2	1.7	–	1.7

	For the six months ended 30th September 2004		
	HKAS 17	HKFRS 2	Total
	HK$'000	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)
Decrease/(increase) in general and administrative expenses	7	(306)	(299)
Increase/(decrease) in profit attributable to equity holders of the Company	7	(306)	(299)
Decrease in basic earnings per share (HK cents per share)	–	(0.1)	(0.1)
Decrease in diluted earnings per share (HK cents per share)	–	(0.1)	(0.1)

Effect of changes in accounting policies on the condensed consolidated balance sheet is as follows:

	As at 30th September 2005				
	HKAS 17	**HKASs 32 and 39 (i)**	**HKASs 36 and 38 and HKFRS 3**	**HKFRS 2**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**
Decrease in property, plant and equipment	**(22,772)**	**–**	**–**	**–**	**(22,772)**
Increase in leasehold land and land use rights	**22,884**	**–**	**–**	**–**	**22,884**
Increase in goodwill	**–**	**–**	**822**	**–**	**822**
Increase in available-for-sale financial assets	**–**	**12,642**	**–**	**–**	**12,642**
Decrease in non-trading securities	**–**	**(12,642)**	**–**	**–**	**(12,642)**
Increase in derivative financial instruments (assets)	**–**	**2,867**	**–**	**–**	**2,867**
Increase in net assets	**112**	**2,867**	**822**	**–**	**3,801**
Increase in share premium	**–**	**–**	**–**	**1,071**	**1,071**
Increase/(decrease) in retained earnings	**112**	**2,867**	**822**	**(1,071)**	**2,730**
Increase in equity	**112**	**2,867**	**822**	**–**	**3,801**

	As at 31st March 2005		
	HKAS 17	HKFRS 2	Total
	HK$'000	*HK$'000*	*HK$'000*
Decrease in property, plant and equipment	(23,003)	–	(23,003)
Increase in leasehold land and land use rights	23,091	–	23,091
Increase in net assets	88	–	88
Increase in share premium	–	1,014	1,014
Increase/(decrease) in retained earnings	88	(1,014)	(926)
Increase in equity	88	–	88

Notes:

(i) The adoption of HKAS 39 resulted in an increase in opening reserves at 1st April 2005 by approximately HK$3,524,000.

(ii) The adoption of HKAS 40 resulted in a decrease in opening investment properties revaluation reserve and an increase in opening retained earnings at 1st April 2005 by approximately HK$2,069,000.

3. Segment information

Primary reporting format – business segments

At 30th September 2005, the VSC Group operates predominately in Hong Kong and the Mainland China in two major business segments:

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

(2) Construction Materials Group ("CMG")

The segment results for the six months ended 30th September 2005 are as follows:

	CAMP	**CMG**	**Others**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**
Total gross segment turnover	**753,765**	**1,610,483**	**1,157**	**2,365,405**
Inter-segment sales	**–**	**(51,732)**	**–**	**(51,732)**
Turnover	**753,765**	**1,558,751**	**1,157**	**2,313,673**
Segment results	**35,253**	**34,407**	**534**	**70,194**
Other gains – net	**(960)**	**204**	**6,584**	**5,828**
Unallocated corporate expenses				**(24,819)**
Operating profit				**51,203**
Finance costs				**(20,968)**
Profit before income tax				**30,235**
Income tax expense				**(4,254)**
Profit for the period				**25,981**

The segment results for the six months ended 30th September 2004 are as follows:

	CAMP	CMG	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Turnover	604,897	1,321,109	1,416	1,927,422
Segment results	53,666	2,467	278	56,411
Other gains – net	1,444	134	4,231	5,809
Unallocated corporate expenses				(26,088)
Operating profit				36,132
Finance costs				(7,377)
Profit before income tax				28,755
Income tax expense				(2,149)
Profit for the period				26,606

Other segment items included in the income statements are as follows:

	For the six months ended 30th September 2005				For the six months ended 30th September 2004			
	CAMP	**CMG**	**Others**	**Total**	CAMP	CMG	Others	Total
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Depreciation of property, plant and equipment	**6,833**	**1,016**	**2,279**	**10,128**	6,984	951	3,196	11,131
Amortisation of goodwill	**–**	**–**	**–**	**–**	1,835	–	–	1,835
Impairment of goodwill	**1,437**	**–**	**–**	**1,437**	–	–	–	–
Amortisation of leasehold land and land use rights	**125**	**–**	**201**	**326**	123	–	–	123
Staff costs	**9,378**	**12,526**	**13,905**	**35,809**	9,144	13,116	14,984	37,244
Loss on disposal of property, plant and equipment	**–**	**–**	**–**	**–**	–	121	16	137

The segment assets and liabilities at 30th September 2005 and capital expenditure for the six months ended 30th September 2005 are as follows:

	CAMP	**CMG**	**Others**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**
Total assets	**954,229**	**1,091,278**	**111,511**	**2,157,018**
Total liabilities	**460,580**	**750,316**	**198,352**	**1,409,248**
Capital expenditure	**3,868**	**3,401**	**1,177**	**8,446**

The segment assets and liabilities at 31st March 2005 and capital expenditure for the six months ended 30th September 2004 are as follows:

	CAMP	CMG	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Restated)	(Restated)	(Restated)	(Restated)
Total assets	868,590	1,262,780	141,462	2,272,832
Total liabilities	465,317	849,742	228,731	1,543,790
Capital expenditure	3,776	589	296	4,661

Segment assets consist operating assets.

Segment liabilities comprise operating liabilities. They exclude corporate borrowings.

Capital expenditures comprise additions to property, plant and equipment, goodwill resulting from adjustment to purchase consideration for subsidiaries acquired in previous years, and available-for-sale financial assets.

Secondary reporting format – geographical segments

The VSC Group's two business segments operate in Hong Kong and the Mainland China.

The VSC Group's turnover, total assets and capital expenditures by geographical locations are as follows:

	Turnover		**Total assets**		**Capital expenditures**	
	For the six months ended 30th September		**As at**		**For the six months ended 30th September**	
	2005	2004	**30th September 2005**	31st March 2005	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Restated)	**(Unaudited)**	(Unaudited)
Hong Kong	**600,173**	523,956	**741,222**	878,301	**4,123**	351
Mainland China	**1,713,500**	1,403,466	**1,415,796**	1,394,531	**4,323**	4,310
	2,313,673	1,927,422	**2,157,018**	2,272,832	**8,446**	4,661

Turnover is allocated based on the places in which customers are located. Total assets and capital expenditures are allocated based on the location of those assets.

4. Turnover

Analysis of turnover by category is as follows:

	For the six months ended 30th September	
	2005	2004
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Manufacturing of industrial products		
– Processing of rolled flat steel products	**563,727**	407,146
– Enclosure systems	**57,393**	71,715
Trading of industrial products		
– Engineering plastic resins	**132,645**	126,036
Stockholding and trading of construction materials		
– Steel products – steel rebars, structural steel and flat steel products	**1,471,517**	1,237,340
– Sanitary ware and kitchen cabinets	**87,234**	81,113
– Revenue from installation work of kitchen cabinets	**–**	2,656
Rental income	**1,157**	1,416
	2,313,673	1,927,422

5. Other gains – net

	For the six months ended 30th September	
	2005	2004
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interest income	**2,635**	2,946
Dividend income from unlisted non-trading securities	**–**	1,186
Guarantee return from a joint venture	**–**	1,677
Surplus on revaluation of investment properties	**6,388**	–
Loss on disposal of an available-for-sale financial asset	**(1,560)**	–
Loss on disposal of interest in a subsidiary	**(198)**	–
Impairment loss on goodwill	**(1,437)**	–
	5,828	5,809

6. Expenses by nature

Expenses included in selling and distribution expenses and general and administrative expenses are analysed as follows:

	For the six months ended 30th September	
	2005	2004
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Depreciation of property, plant and equipment	**10,128**	11,131
Loss on disposal of property, plant and equipment	**–**	137
Amortisation of goodwill	**–**	1,835
Amortisation of leasehold land and land use rights	**326**	123
Staff costs	**35,809**	37,244

7. Finance costs

	For the six months ended 30th September	
	2005	2004
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interest expense on borrowings	**20,968**	7,377

8. Income tax expense

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the VSC Group operates.

	For the six months ended 30th September	
	2005	2004
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current taxation		
– Hong Kong profits tax	**1,833**	3,569
– Overseas taxation	**2,386**	1,238
Deferred taxation relating to the origination and reversal of temporary differences	**35**	(2,658)
Taxation charge	**4,254**	2,149

9. Dividends

The directors of VSC ("Directors") do not recommend the payment of an interim dividend for the six months ended 30th September 2005 (six months ended 30th September 2004: Nil).

10. Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	For the six months ended 30th September	
	2005	2004
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit attributable to equity holders of the Company	**21,976**	23,795
Weighted average number of ordinary shares in issue (thousands)	**368,605**	367,913
Basic earnings per share (HK cents per share)	**6.0**	6.5

Diluted

Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all share options. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	For the six months ended 30th September	
	2005	2004
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit attributable to equity holders of the Company	**21,976**	23,795
Weighted average number of ordinary shares in issue (thousands)	**368,605**	367,913
Adjustments for share options (thousands)	**–**	4,168
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**368,605**	372,081
Diluted earnings per share (HK cents per share)	**6.0**	6.4

11. **Accounts and bills receivable**

The majority of the VSC Group's sales are on open account. The general credit terms granted to customers range from 30 to 90 days. Ageing analysis of the accounts and bills receivables (including amounts due from related parties of trading in nature) were as follows:

	As at 30th September 2005	As at 31st March 2005
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0 – 60 days	**546,431**	448,247
61 – 120 days	**168,812**	170,993
121 – 180 days	**40,679**	83,219
181 – 365 days	**23,679**	20,124
1 – 2 years	**5,592**	17,102
Over 2 years	**9,697**	10,568
	794,890	750,253
Less: provision for bad and doubtful receivables	**(9,189)**	(13,495)
	785,701	736,758

There is no concentration of credit risk with respect to accounts and bills receivable, as the VSC Group has a large number of widely dispersed customers.

The VSC Group has recognised a loss of approximately HK$1,287,000 (2004: Nil) for the impairment of its accounts and bills receivable during the six months ended 30th September 2005. The loss has been included in general and administrative expenses in the income statement.

12. **Accounts and bills payable**

Ageing analysis of the accounts and bills payable (including amounts due to related parties of trading in nature) were as follows:

	As at 30th September 2005	As at 31st March 2005
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0 – 60 days	**188,951**	306,357
61 – 120 days	**28,802**	33,015
121 – 180 days	**18,672**	20,524
181 – 365 days	**6,436**	3,671
1 – 2 years	**1,225**	1,210
Over 2 years	**85**	161
	244,171	364,938

13. **Contingent liabilities**

The VSC Group has given performance bonds in the ordinary course of business amounting to approximately HK$5,476,000 (31st March 2005: HK$6,293,000) to third parties.

14. **Commitments**

There was no material change in commitments since 31st March 2005.

15. **Event after balance sheet date**

In November 2005, Senior Rich Development Limited, a wholly-owned subsidiary of VSC, was disposed for approximately HK$34,468,000, and in this connection the VSC Group recognised a gain of approximately HK$750,000.

RESULTS

Turnover for the six months ended 30th September 2005 was approximately HK$2,314 million, an increase of 20% as compared with the same period in 2004. Both CAMP and CMG recorded a growth in turnover of 25% and 18% respectively. Overall gross margin, however, decreased by 8% because of the continued sharp drop in steel price since April 2005 which has adversely affected the margin of our coil centres and the steel distribution business in the Mainland China.

Overall selling and distribution expenses increased by 6% resulting in an increase in turnover by 20% generated by our proactive sales team. The VSC Group's continued effort to be cost effective, overall general and administrative expenses decreased by 7%. Operating profit increased by 42% to HK$51 million. However, finance costs increased drastically from HK$7 million to HK$21 million as a result of the soaring interest rate. Profit for the period attributable to the equity holders of the Company was approximately HK$22 million, a decrease of approximately 8% as compared to the six months ended 30th September 2004.

Basic earnings per share decreased by 8% to HK6.0 cents due to the decrease in profit for the period attributable to the equity holders of the Company. No interim dividend was declared for the period (2004: Nil).

FINANCIAL POSITIONS

Compared with 31st March 2005, the VSC Group's total assets decreased by HK$116 million to HK$2,157 million. Non-current assets and current assets both reduced by HK$12 million and HK$103 million respectively. Inventory reduced approximately by HK$71 million with an average turn of 72 days with an improvement of 2 days. Accounts receivable increased by HK$49 million with an average turn of 60 days which is 9 days better. Current ratio improved from 1.47 to 1.51. Gearing ratio (borrowings net of cash and bank deposits divided by total equity) increased from 1.21 to 1.25.

The VSC Group's trade financing remained primarily supported by its HK$1.3 billion bank trade facilities. The VSC Group also has a syndicated bank loan of HK$194 million and short-term bank borrowings of HK$149 million. About 76% of the total borrowings were denominated in Hong Kong dollars, 12% in US dollars and 12% in RMB. These facilities are either secured by the VSC Group's inventories held under short-term trust receipts bank loan arrangement and/or with corporate guarantees provided by VSC. All of the borrowings are subject to floating interest rates. Interest costs of the Hong Kong dollars and US dollars loans were levied on inter-banks borrowing rates with very competitive margin. RMB banking facilities were based on standard loan rates set by the People's Bank of China adjusted with competitive margin.

In light of an expected uptrend on the interest rate, the VSC Group is also actively evaluating its current loan with a goal to optimising its financing cost while mindful of the need to continue its growth in business to yield the best return to its shareholders.

As at 30th September 2005, net asset value of the VSC Group increased from HK$729 million to HK$748 million, equivalent to HK$2.0 per share.

CHARGES ON ASSETS

As at 30th September 2005, the VSC Group had certain charges on assets which included (i) bank deposit of approximately HK$15 million pledged for RMB bank facilities and custom deposits; (ii) inventories of approximately HK$33 million pledged for a RMB bank loan; (iii) land and buildings of approximately HK$9 million pledged for a RMB bank loan; and (iv) inventories held under short-term trust receipts bank loan arrangements in Hong Kong.

REVIEW OF OPERATIONS

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

The businesses of CAMP operations of the VSC Group consist of processing of rolled steel in coil, manufacture of enclosure systems and distribution of engineering plastic resins. For the period under review, turnover of CAMP increased by 25% to HK$754 million while segment results decreased by 34% to HK$35 million due to pressure exerted by a continued decreasing market price as mentioned above. CAMP accounted for 33% of the VSC Group's total turnover and 50% of segment results.

Coil Centre Operations

For the six months period from April to September 2005 under review, the coil centres' performance was affected by various parameters. The supply/demand imbalance in the PRC has been the main underlying force. Since April 2005, the steel prices in the PRC especially flat products, continue the dramatic downward trend. Despite the changing market condition, the three coil centres, Dongguan ("DG"), Guangzhou ("GZ") and Tianjin ("TJ") had processed a total of 79,200 MT which represents a growth of 21% from the same period last year. This resulted in continuous improvement in the capacity utilisation of our "greenfield" Tianjin coil centre, and "brownfield" Guangzhou coil centre. As compared to the same period last year, the coil centres' customer base exceeded 400, an increase of over 200 new customers which contributed an additional business volume of 23,300 MT representing 29% of the coil centres' total sales volume for the period under review.

Compare with the same period last year, turnover increased 38% as a result of growth in our customer base as well as ability to sell more product tonnage. Although average selling price was relatively higher than the same period last year, the market has experienced a drop in price since April of 2005. Accordingly, our average selling price had begun a downward trend since then. As one of our value proposition is to provide just-in-time delivery to our customers, all our coil centres needed to maintain a certain level of inventory to achieve this goal, the rapid drop in selling price had eroded the gross margin on our "buffer stock" and as a result, our gross margin percentage was adversely affected. To mitigate the effect of the price erosion, our strategies are to diversify sourcing and to promote a closer cooperation with customers to select the optimal cost/quality material. Capitalising on the VSC Group's long standing sound relationship with mills and suppliers in the Mainland China and around the world, enabling our customers to obtain the best sourcing with the most effective cost. Coupled with our technical knowledge and experience in steel application, our customers can rely on us to get the best solution thus enjoy a win-win position.

TJ coil centre continues to increase utilisation of its capacity and processed 15,700 MT which is 63% more than the same period last year. Turnover increased from HK$58 million to HK$112 million. Customer mix includes industries like IT (33%), white goods (24%), welding (7%) and others (36%). The TJ coil centre has also entered into a strategic alliance with Marubeni-Itochu whom had decided to become a stakeholder in our TJ coil centre in June 2005. The strategic intent is to enhance the ability of our TJ coil centre to access and better serve the numerous Japanese customers operating in the Northern part of the PRC.

GZ coil centre, a 70% JV with Shinsho Corporation which is a core trading company of Kobe Steel Group in Japan also captured a handsome growth and reached 25,700 MT which is 64% more than the same period last year. Turnover increased from HK$97 million to HK$185 million. Customer mix included industries like IT (29%), automobile (14%), white goods (29%) and others (28%). The performance of the joint venture has been encouraging, and GZ coil centre is expected to continue to grow towards its capacity.

DG coil centre is the most mature coil centre within the VSC Group and 37,800 MT was processed, which is 6% slightly less than that of last year. Despite a drop in tonnage, the turnover increased from HK$252 million to HK$266 million (6%) due to the higher selling price as compared with the same period last year. Customer mix was pretty stable included industries like IT (71%), audio visual (13%) and others (16%).

Enclosure Systems Manufacturing (Van Jia Yuen "VJY")

Turnover of VJY for the period under review amounted to HK$57 million, a decrease of 20% as compared to the same period last year. It continued to serve the major domestic telecommunication equipment providers, Huawei and Zhongxing (ZTE), and the U.S. power supply equipment provider, Emerson. It also supplies fabricated metal parts to Guangzhou Isuzu Bus Co. Ltd. Its high degree of deep processing provides high value-add to its customers, VJY was able to yield a healthy gross margin. However, the result of VJY is still not as sound as the VSC Group's other processing facilities. Efforts were put in to try to enhance the performance of the operation. As a result, the facility has experienced some turnover in local management, but the VSC Group has moved to respond quickly and a new general manager was on board in August 2005. The VSC Group will look into further streamlining the operations while continue to develop our relationship with our current strategic customers. We are also in the process of revisiting our strategies to increase our export turnover. The VSC Group is confident that such continued improvements and restructuring will enable the VJY facility to be as healthy and contributing as other members of the VSC Group in the long run.

Plastics

For the period under review, price of crude oil remained high which drove up the price of plastic resins. Some smaller manufacturers cannot cope with the price hike and went out of business. Larger manufacturers slowed down on their production and resulted in decrease in demand for plastic resins. Sales volume of Plastics department, thus, dropped 23% but turnover increased by 5% to HK$133 million because sales price soared by 36%. Segment results dropped 11% to HK$7 million. The department continued to promote the engineering plastic resins of a wide range of suppliers including Samsung Total, Samsung Cheil, GE Plastics, Mitsubishi and UMG. The team offers technical assistance to customers' new products development and coordination with suppliers. Local sales teams in Shenzhen and Guangzhou have penetrated into the local markets around the Pearl River Delta, targeting the huge demand for high quality imported resins, particularly in the home appliance, electronics and electrical, health care and medical products market.

(2) CONSTRUCTION MATERIALS GROUP ("CMG")

The businesses of CMG operations of the VSC Group include distribution of steel and building products in both Hong Kong and the Mainland China, primarily to developers and contractors for construction works. Turnover of CMG for the period increased by 18% to HK$1,559 million and segment results increased almost 14 times to HK$34 million over the same period in 2004. CMG accounted for 67% of the VSC Group's total turnover and 49% of segment results.

Steel Distribution

The major business unit of the VSC Group's CMG operations is steel distribution, which embodies stockholding and distribution business of rebars, structural steel and engineering products in Hong Kong, distribution of imported steel products in the Mainland China and distribution of mainly domestic steel products through Shanghai Bao Shun Chang ("BSC"), a joint venture with Bao Steel of which VSC holds 66.7% equity share.

Hong Kong Steel Distribution

As a result of the VSC Group's determined efforts to modify its business model to offer better shareholders' value, the Hong Kong Steel Department had turnaround its operation and recovered from a loss position. The department achieved an encouraging operating profit of HK$33 million in the six months ended 30th September 2005 as compared to an operating loss of HK$12 million in the same period last year. Turnover increased 20% to approximately HK$560 million. After the shortfall in 2004, the department had implemented a series of corrective strategies including sharing of the pricing risk with customers and suppliers, exercising our best effort not to enter into long-term fixed price sales contracts exceeding two years, along with price adjustment for delivery of over one year. In addition to these strategies, we had also implemented measures to reduce our operating cost as well as improving our operating efficiency. As a result, we have turned the gross loss last year into gross margin and at the same time, our inventory level of rebars was reduced by over 50%. Costs of godown operation and handling costs, as well as inventory carrying costs had also been reduced.

PRC Steel Distribution

Since the beginning of this year, the Central Government continued to deploy macro-entrenchment policies to limit the excessive investments in several overheated industries including the steel, real estate development sector, aluminum, automobile and cement industries thus hampering the growth in demands for usage of steel. On 1st April 2005, the PRC Ministry of Finance and the State Administration of Taxation abolished the export tax rebate of steel semi-finished materials such as slab and billet and adjusted the export tax rebate rate of 20 steel products from 13% to 11%. This encouraged the domestic competition and restrains the export of interrelated steel products. Since the supply exceeded demand in both inland and international markets for quite a number of popular steel products, the steel price decreased drastically in the first half-year. This has significant impact on our import steel distribution business in the Mainland China. As a result, the department suffered a gross loss of HK$3.8 million as compared to gross profit of HK$7.6 million last year. BSC was less affected by the recent price fluctuation. Trading only domestic steel products, BSC has a shorter procurement lead-time and can respond to the market quicker. For the period under review, turnover of BSC increased 24% to HK$460 million and segment results increased 114% to HK$10 million. To overcome this challenge, management is focused on managing the inventory position by concentrating its resources into domestic purchase; enhance back-to-back sales, and increase the inventory turnover.

Building Products

Turnover of the Building Products Department increased by 4% to HK$87 million as compared to the same period last year. Turnover of Hong Kong Project Sales decreased but was compensated by Leisure Plus, our retail outlet and showroom which soared by 71% to reach HK$20 million. Our strategy is to continue to diversify into the booming cities like Macau, Shanghai, Shenzhen and Guangzhou. The VSC Group will continue our distribution in Shanghai, Shenzhen and Guangzhou from TOTO on wholesale, channel sales and project sales of sanitary wares. Distribution channel have been established to expand sales coverage in these cities. For the period under review, the turnover and gross profit of Leisure Plus Shanghai increased by 45% and 44% respectively. The operation in Shenzhen earned revenue of HK$8 million and already achieved breakeven point. The department has proceeded in setting a joint venture in Macau to capture the business opportunity in Macau in the coming years.

PROSPECTS

According to World Steel Dynamic in the U.S., steel prices for flat products have dropped up to 45-50% and for long products up to 25%. It is expected that the drop will come to an end and it seems that steel prices will be picking up after the Chinese New Year in 2006. Nevertheless, the management had implemented substantial efforts against such tough background in allocating its limited resources to selected higher value added products with faster inventory turns which should translate into greater return to shareholders.

For CMG, we will continue to execute our successful strategies for Hong Kong Steel. As at 30th September 2005, most of the outstanding fixed low price sales contracts had been fulfilled or expired. Based on the committed sales contracts on hand, we expect the department to contribute significant margin to the VSC Group in the second half of the fiscal year. For China Steel Distribution, we will focus our sales distribution network to cover the most densely populated cities like Beijing, Shanghai, Guangzhou, Tianjin, Shenzhen and Chongqing so that we could reach the highest average annual income per capita cities in China. These factors translate into high demands for household appliances, real estate properties and infrastructure construction, which are the key driving forces for steel consumption.

For CAMP, the coil centres will continue to be the growth engine. The current business model of stocking and delivering just-in-time for customers are factors that help to differentiate the VSC coil centres thus allowing them to maintain its preferential position with both the mills and the top tier customers. Under this turbulent market condition, the management will focus more on inventory management and diversifying into other steel processing products and customers base, in their effort to increase profitability and not sacrificing its core value proposition. Irrespective of the price volatilities, the VSC Group is convinced that its "customer-centric" approach for the coil centres business model is and will continue to be a success. In light of the infancy stage and a highly fragmented landscape of the coil centres sector in the PRC market, the Group is actively exploring opportunities to set up more coil centres in line with its "enterprise" approach. This will be achieved either through acquisition or building greenfield plant whichever better fit our growth strategies and criteria. In addition, as the WTO will further open up the PRC manufacturing sectors, further solidifying its position the "factory of the world", more and more "transplant" move by major international brands and operators will continue to fuel the growing need for reliable service centres. As a result, the VSC Group is also actively exploring opportunities to work with or forming alliances with the more established western service centres groups to tackle this fast expanding sector in the PRC. The VSC Group is confident that such opportunities will allow the CAMP operation to grow to the next level and elevate the VSC Group to establish a strong and solid presence in this fast growing sector in the PRC.

CORPORATE GOVERNANCE

In the Board of Directors' meeting held on 20th December 2005, the Board reviewed the requirements of the Code on Corporate Governance Practices ("CG Code") and Rules on the Corporate Governance Report as stated in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). The Board adopted new terms of reference of the audit committee (include such duties as stated in code provision C.3.3) and the terms of reference of the remuneration committee. These terms of references were posted to VSC's website at http://www.vschk.com on the same date.

PURCHASE, SALE OF REDEMPTION OF SHARES

Neither VSC nor any of its subsidiaries has purchased, sold or redeemed any of shares of VSC during the six months ended 30th September 2005.

CODE ON CORPORATE GOVERNANCE PRACTICES

Saved as disclosed in the "Corporate Governance" under "REVIEW OF OPERATIONS" of this announcement, none of the Directors is aware of information that would reasonably indicate that VSC is not, or was not for any part of the accounting period covered by the interim announcement, in compliance with the code provisions as set out in the CG Code contained in Appendix 14 of the Listing Rules, except for the deviations herein below mentioned:

1. **Code provision A.2.1**
   The CG Code stipulates that the roles of the chairman and the chief executive officer should be separated and should not be performed by the same individual. VSC does not have a separate chairman and chief executive officer and Mr. Andrew Cho Fai Yao currently holds both positions. The Board believes that vesting the roles of both chairman and chief executive officer in the same person provides the VSC Group with strong and consistent leadership, efficiency usage of resources and allows for effective planning, formulation and implementation of VSC's business strategies which will enable the VSC Group to sustain the development of the VSC Group's business efficiently.

2. **Code provisions A.4.1 and A.4.2**
   The CG Code stipulates that (1) the non-executive directors should be appointed for a specific term, subject to re-election and (2) all directors appointed to fill casual vacancies should be subject to election by shareholders at the first general meeting after their appointment and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. VSC's non-executive Directors are not appointed for a specific term and one third of the Directors are subject to retirement by rotation at each annual general meeting. The chairman and the managing director of VSC are not subject to retirement by rotation. According to the Bye-laws of VSC, all Directors appointed shall hold office only until the next following annual general meeting of VSC and shall then be eligible for re-election at the meeting. The Board will propose to amend VSC's Bye-laws at the 2006 Annual General Meeting with a view to ensure full compliance with the CG Code. Details of the amendments are subject to further discussions of the Board.

3. **Code provision A.5.4**
   The CG Code stipulates that Directors must comply with their obligations under the Model Code set out in Appendix 10 of the Listing Rules and, in addition, the Board should establish written guidelines for relevant employees in respect of their dealings in the securities of VSC. VSC has deviated from this code provision as there are currently no written guidelines issued by the Board for relevant employees in respect of their dealings in the securities of VSC. The Board will review the current measures of VSC and will consider adopting such written guidelines in accordance with the code provision.

AUDIT COMMITTEE

The Audit Committee has been set up since December 1998 and now consists of four non-executive Directors with Mr. Kenny King Ching Tam as chairman and Dr. Chow Yei Ching, Dr. Shao You Bao and Mr. Harold Richard Kahler as members (of whom three, including the chairman of the Audit Committee, are independent non-executive Directors) with Mr. Kenny King Ching Tam who is an independent non-executive Director with appropriate professional accounting expertise as required under Rule 3.10 of the Listing Rules. Scope of the work of the Audit Committee is defined and approved by the Board in relation to various internal control and audit issues with a view to further improving our corporate governance. This unaudited condensed consolidated financial information for the six months ended 30th September 2005 of VSC now reported on have been reviewed by the Audit Committee.

PUBLICATION OF INTERIM REPORT ON STOCK EXCHANGE'S WEBSITE

The 2005/06 Interim Report of VSC containing all the information required by the Listing Rules will be published on the websites of VSC (http://www.vschk.com) and The Stock Exchange of Hong Kong Limited (http://www.hkex.com.hk) in due course.

On behalf of the Board
Andrew Cho Fai Yao
Chairman

Hong Kong, 20th December 2005

As at the date of this announcement, the Board comprised Andrew Cho Fai Yao (Chairman), Fernando Sai Ming Dong (being the executive Directors), Shao You Bao (being the non-executive Director), Chow Yei Ching, Harold Richard Kahler, Kenny King Ching Tam (being the independent non-executive Directors).