VSC万顺昌

VAN SHUNG CHONG HOLDINGS LIMITED

Website: http://www.vschk.com

(Incorporated in Bermuda with limited liability)

(Stock Code: 1001)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2008

The Board of Directors (the "Board") of Van Shung Chong Holdings Limited ("VSC" or the "Company") hereby announces the unaudited condensed consolidated interim financial information of VSC and its subsidiaries (the "VSC Group") as at and for the six months ended 30th September 2008, together with comparative figures, as follows:

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the six months ended 30th September 2008

		For the six months ended 30th September	
		2008	2007
	Note	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Revenue	3	**3,046,324**	2,788,767
Cost of sales	4	**(2,783,823)**	(2,619,414)
Gross profit		**262,501**	169,353
Other (losses)/gains — net		**(11,177)**	6,910
Selling and distribution expenses	4	**(25,686)**	(22,008)
General and administrative expenses	4	**(133,438)**	(103,141)
Operating profit		**92,200**	51,114
Finance income	5	**2,899**	4,940
Finance costs	5	**(24,840)**	(21,223)
Share of post-tax profit of associates		**1,008**	(2,551)
Profit before income tax		**71,267**	32,280
Income tax expense	6	**(18,596)**	(6,058)
Profit for the period		**52,671**	26,222
Attributable to:			
Equity holders of the Company		**34,495**	21,342
Minority interest		**18,176**	4,880
		52,671	26,222
Dividends	7	**—**	4,155
Earnings per share for profit attributable to the equity holders of the Company			
— Basic	8	**HK9.1 cents**	HK5.7 cents
— Diluted		**HK9.1 cents**	HK5.6 cents

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET
As at 30th September 2008

	Note	**As at 30th September 2008** *HK$'000* **(Unaudited)**	As at 31st March 2008 *HK$'000* (Audited)
Non-current assets			
Property, plant and equipment		**145,725**	140,422
Investment properties		**44,800**	44,800
Leasehold land and land use rights		**27,488**	27,417
Goodwill		**6,775**	16,585
Investments in associates		**159,890**	158,882
Deferred income tax assets		**32,073**	31,395
Available-for-sale financial assets		**7,055**	7,055
Derivative financial instruments		—	1,310
Total non-current assets		**423,806**	427,866
Current assets			
Inventories		**1,108,010**	815,377
Due from customers on installation contract work		**2,700**	2,700
Trade and bill receivables	9	**662,177**	794,798
Loan receivables		**22,472**	22,472
Prepayments, deposits and other receivables		**232,209**	264,314
Derivative financial instruments		**35,586**	15,356
Amounts due from associates		**21,587**	16,927
Non-current assets held for sale		—	7,100
Pledged bank deposits		**137,453**	214,577
Cash and cash equivalents		**287,988**	271,435
Total current assets		**2,510,182**	2,425,056
Current liabilities			
Trade and bill payables	10	**253,878**	401,417
Receipts in advance		**101,046**	110,524
Accrued liabilities and other payables		**77,485**	61,619
Current income tax liabilities		**16,511**	10,552
Derivative financial instruments		**28,509**	3,319
Borrowings		**1,222,069**	1,065,039
Total current liabilities		**1,699,498**	1,652,470
Net current assets		**810,684**	772,586
Total assets less current liabilities		**1,234,490**	1,200,452

	Note	As at 30th September 2008 HK$'000 (Unaudited)	As at 31st March 2008 HK$'000 (Audited)
Non-current liabilities			
Derivative financial instruments		**9,087**	2,590
Deferred income tax liabilities		**2,239**	2,268
Borrowings		**86,179**	117,690
Total non-current liabilities		**97,505**	122,548
Net assets		**1,136,985**	1,077,904
Equity			
Capital and reserves attributable to equity holders of the Company			
Share capital		**38,143**	38,043
Reserves		**839,146**	797,688
		877,289	835,731
Minority interest		**259,696**	242,173
Total equity		**1,136,985**	1,077,904

NOTES:

1 BASIS OF PREPARATION

The unaudited condensed consolidated interim financial information for the six months ended 30th September 2008 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting". The unaudited condensed consolidated interim financial information should be read in conjunction with the annual consolidated financial statements for the year ended 31st March 2008, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

2 ACCOUNTING POLICIES

Except as described below, the accounting policies adopted are consistent with those of the annual financial statements for the year ended 31st March 2008, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

The following new interpretations are mandatory for the first time for the financial year beginning 1st April 2008 but are not currently relevant for the VSC Group.

HK(IFRIC) — Int 12	Service Concession Arrangements
HK(IFRIC) — Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
HKAS 39 and HKFRS 7 (Amendments)	Financial Instruments: Recognition and Measurement and Financial Instruments: Disclosures (effective on or after 1st July 2008)

The following new/revised standards and amendments to existing standards have been issued but are not effective for the financial year beginning 1st April 2008 and have not been early adopted:

HKAS 1 (Revised)	Presentation of Financial Statements (effective for annual periods beginning on or after 1st January 2009)
HKAS 23 (Revised)	Borrowing Costs (effective for annual periods beginning on or after 1st January 2009)
HKAS 27 (Revised)	Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1st July 2009)
HKFRS 2 (Amendment)	Share-based Payment Vesting Conditions and Cancellations (effective for annual periods beginning on or after 1st January 2009)
HKFRS 3 (Revised)	Business Combinations (effective for annual periods beginning on or after 1st July 2009)
HKFRS 8	Operating Segments (effective for annual periods beginning on or after 1st January 2009)

The VSC Group plans to adopt the above new/revised standards and amendments to existing standards when they become effective.

The following amendments to existing standards and interpretations have not yet been effective and are not relevant to the VSC Group's operations:

HKAS 32 and HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation (effective for annual periods beginning on or after 1st January 2009)
HK(IFRIC) — Int 13	Customer Loyalty Programmes (effective for annual periods beginning on or after 1st July 2008)
HK(IFRIC) — Int 15	Agreements for Construction of Real Estate (effective for annual periods beginning on or after 1st January 2009)
HK(IFRIC) — Int 16	Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1st October 2008)

3 SEGMENT INFORMATION

Primary reporting format — business segments

The VSC Group operates predominantly in Hong Kong and Mainland China and in two business segments:

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

(ii) Construction Materials Group ("CMG")

Analysis of the VSC Group's results by business segment for the six months ended 30th September 2008 is as follows:

	CAMP	CMG	Other operations	Eliminations	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
External revenue	1,136,904	1,909,111	309	—	3,046,324
Inter-segment revenue	—	62,945	—	(62,945)	—
	1,136,904	1,972,056	309	(62,945)	3,046,324
Segment results	84,263	59,073	(18)		143,318
Other gains/(losses) — net	(9,805)	(196)	(1,176)		(11,177)
Unallocated corporate expenses					(39,941)
Operating profit					92,200
Finance income					2,899
Finance costs					(24,840)
Share of post-tax profit of associates					1,008
Income tax expense					(18,596)
Profit for the period					52,671

Analysis of the VSC Group's results by business segment for the six months ended 30th September 2007 is as follows:

	CAMP	CMG	Other operations	Eliminations	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
External revenue	1,207,174	1,568,808	12,785	—	2,788,767
Inter-segment revenue	—	108,807	—	(108,807)	—
	1,207,174	1,677,615	12,785	(108,807)	2,788,767
Segment results	36,639	34,162	12,490		83,291
Other gains/(losses) — net	(194)	(1,252)	8,356		6,910
Unallocated corporate expenses					(39,087)
Operating profit					51,114
Finance income					4,940
Finance costs					(21,223)
Share of post-tax loss of associates					(2,551)
Income tax expense					(6,058)
Profit for the period					26,222

The segment assets and liabilities as at 30th September 2008 and capital expenditure, depreciation and amortisation, impairment of trade receivables and write-down of inventories for the six months ended 30th September 2008 are as follows:

	CAMP	CMG	Other operations	Unallocated	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets	1,170,028	1,475,267	251,788	36,905	2,933,988
Liabilities	206,836	261,874	2,774	1,325,519	1,797,003
Capital expenditure	10,027	3,317	—	—	13,344
Depreciation and amortisation	8,181	2,288	219	—	10,688
Impairment of trade receivables	12,413	3,599	—	—	16,012
Write-down of inventories	510	3,160	—	—	3,670

The segment assets and liabilities as at 31st March 2008 and capital expenditure, depreciation and amortisation, impairment of trade receivables and write-down/(write-back) of inventories for the six months ended 30th September 2007 are as follows:

	CAMP	CMG	Other operations	Unallocated	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets	1,241,708	1,323,016	248,720	39,478	2,852,922
Liabilities	207,386	377,782	2,520	1,187,330	1,775,018
Capital expenditure	9,541	1,235	—	—	10,776
Depreciation and amortisation	8,296	2,178	220	—	10,694
Impairment of trade receivables	636	1,467	—	—	2,103
Write-down/(write-back) of inventories	4,476	(1,276)	—	—	3,200

Unallocated cost represents corporate expenses. Inter-segment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

Segment assets consist primarily of property, plant and equipment, leasehold land and land use rights, goodwill, investments in associates, deferred income tax assets, inventories, due from customers on installation contract work, trade and bill receivables, loan receivables, prepayments, deposits and other receivables, amounts due from associates, pledged bank deposits and cash and cash equivalents. They exclude items such as investment properties, available-for-sale financial assets and derivative financial instruments.

Segment liabilities comprise operating liabilities and exclude corporate borrowings and derivative financial instruments.

Capital expenditure comprises additions to property, plant and equipment, investment properties, and leasehold land and land use rights, including additions resulting from acquisitions through business combinations, if any.

Other operations mainly comprise the provision of rental services in Hong Kong and other investments which do not constitute separately reportable segments.

Secondary reporting format — geographical segments

The VSC Group's business activities operate predominately in Hong Kong and Mainland China.

Analysis of the VSC Group's revenue, assets and capital expenditure by geographical segment are as follows:

	Revenue		**Assets**		**Capital expenditure**	
	For the six months ended 30th September		**As at 30th September**	As at 31st March	**For the six months ended 30th September**	
	2008	2007	**2008**	2008	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**725,968**	624,871	**1,055,496**	966,911	**1,777**	989
Mainland China	**2,320,356**	2,163,896	**1,878,492**	1,886,011	**11,567**	9,787
	3,046,324	2,788,767	**2,933,988**	2,852,922	**13,344**	10,776

Revenue are allocated based on the places in which customers are located. Assets and capital expenditure are allocated based on where the assets are located.

4 EXPENSES BY NATURE

Expenses included in cost of sales, selling and distribution expenses and general and administrative expenses are analysed as follows:

	For the six months ended 30th September	
	2008	2007
	HK$'000	*HK$'000*
Raw materials consumed and finished goods sold	**2,750,877**	2,579,449
Depreciation of property, plant and equipment	**10,399**	10,421
Loss on disposals of property, plant and equipment	**177**	12
Amortisation of leasehold land and land use rights	**289**	273
Employment costs	**79,992**	65,296
Operating lease rental in respect of		
— land and buildings	**9,751**	5,407
— plant and machinery and motor vehicles	**1,629**	1,647
Impairment of trade receivables	**16,012**	2,103
Write-down of inventories	**3,670**	3,200
Others	**70,151**	76,755
Total cost of sales, selling and distribution expenses and general and administrative expenses	**2,942,947**	2,744,563

5 FINANCE INCOME AND COSTS

	For the six months ended 30th September	
	2008	2007
	HK$'000	*HK$'000*
Finance income		
Interest income:		
— on short-term bank deposits	**2,868**	4,940
— on loan receivables	**31**	—
	2,899	4,940
Finance costs		
Interest expenses:		
— on bank borrowings wholly repayable within five years	**(22,935)**	(19,153)
— paid to a related party	**(1,905)**	(2,070)
	(24,840)	(21,223)
Net finance costs	**21,941**	16,283

6 INCOME TAX EXPENSE

Hong Kong and overseas profits tax has been provided at the rate of 16.5% (2007: 17.5%) and at the rates of taxation prevailing in the countries in which the VSC Group operate respectively.

	For the six months ended 30th September	
	2008	2007
	HK$'000	*HK$'000*
Current income tax		
— Hong Kong profits tax	**6,439**	5,103
— China corporate income tax	**12,453**	2,972
Deferred income tax	**(296)**	(2,017)
Income tax expense	**18,596**	6,058

7 DIVIDENDS

A 2008 final dividend of HK1.3 cents (2007 final: HK2.6 cents) per ordinary share; totalling approximately HK$4,946,000 (2007 final: approximately HK$9,584,000) was paid on 3rd October 2008.

The directors do not recommend the payment of any interim dividend for the six months ended 30th September 2008 (2008 interim: HK1.1 cents per ordinary share; totalling approximately HK$4,155,000).

8 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	
	2008	2007
Profit attributable to equity holders of the Company *(HK$'000)*	**34,495**	21,342
Weighted-average number of ordinary shares in issue *('000)*	**380,762**	374,914
Basic earnings per share *(HK cents)*	**9.1**	5.7

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company's dilutive potential ordinary shares are arising from share options, for which 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	
	2008	2007
Profit attributable to equity holders of the Company and used to determine diluted earnings per share *(HK$'000)*	**34,495**	21,342
Weighted-average number of ordinary shares in issue *('000)*	**380,762**	374,914
Adjustments for share options *('000)*	**—**	4,454
Weighted-average number of ordinary shares for diluted earnings per share *('000)*	**380,762**	379,368
Diluted earnings per share *(HK cents)*	**9.1**	5.6

9 TRADE AND BILL RECEIVABLES

Sales are either (i) covered by letters of credit with bill payable at sight or (ii) at open account with credit terms of 15 to 120 days.

Ageing analysis of trade and bill receivables by invoice date is as follows:

	As at 30th September 2008 *HK$'000*	As at 31st March 2008 *HK$'000*
0 – 60 days	**543,560**	623,513
61–120 days	**99,868**	146,660
121–180 days	**14,045**	16,641
181–365 days	**14,627**	11,989
Over 365 days	**24,290**	17,530
	696,390	816,333
Less: provision for impairment of receivables	**(34,213)**	(21,535)
	662,177	794,798

The carrying amounts of trade and bill receivables are approximately their fair values.

10 TRADE AND BILL PAYABLES

Payment terms with suppliers are either on letters of credit or open account. Certain suppliers grant credit period ranging from 30 to 210 days.

Ageing analysis of the trade and bill payables is as follows:

	As at 30th September 2008 *HK$'000*	As at 31st March 2008 *HK$'000*
0–60 days	**243,180**	357,358
61–120 days	**2,664**	25,416
121–180 days	**2,308**	8,864
181–365 days	**3,034**	9,092
Over 365 days	**2,692**	687
	253,878	401,417

The carrying amounts of trade and bill payables are approximately their fair values.

11 GUARANTEES

As at 30th September 2008, the VSC Group has given performance bonds in the ordinary course of business amounting to approximately HK$573,000 (31st March 2008: approximately HK$1,416,000) to third parties.

12 COMMITMENTS

(a) Capital commitments

Capital commitments in respect of property, plant and equipment are as follows:

	As at 30th September 2008 *HK$'000*	As at 31st March 2008 *HK$'000*
Contracted but not provided for	**3,486**	611

(b) Commitments under operating leases

Total commitments payable under various non-cancellable operating lease agreements in respect of rented premises and motor vehicles are analysed as follows:

	As at 30th September 2008 *HK$'000*	As at 31st March 2008 *HK$'000*
Not later than one year	**13,131**	14,417
Later than one year and not later than five years	**11,430**	16,290
Later than five years	**1,043**	1,854
	25,604	32,561

(c) Commitments under derivative contracts

As at 30th September 2008, the VSC Group had the following derivative contracts. These contracts are stated at fair values as at 30th September 2008.

(i) Outstanding forward foreign currency contracts to purchase approximately US$24,200,000 (31st March 2008: US$58,500,000) for approximately HK$187,094,000 (31st March 2008: HK$452,724,000), for the purpose of hedging against the VSC Group's commitments arising from its trading activities.

(ii) Outstanding currency swap contracts to purchase approximately US$65,000,000 (31st March 2008: US$54,000,000) for approximately RMB451,610,000 (31st March 2008: RMB389,340,000), for the purpose of hedging against the VSC Group's commitments arising from its trading activities.

(iii) Outstanding interest rate swap contracts with notional principal amounts of HK$72,000,000 (31st March 2008: Nil) to pay at a fixed rate of 3.25% per annum and receive floating rate of commercial rate for the purpose of hedging against the VSC Group's loan of HK$48,000,000. The contracts comprise of HK$36,000,000 for the period February 2009 to August 2009, HK$24,000,000 for the period August 2009 to February 2010 and HK$12,000,000 for the period February 2010 to August 2010.

13 SUBSEQUENT EVENTS

CAMP (B.V.I.) Holdings Limited ("CAMP BVI"), a wholly-owned subsidiary of the Company, received and accepted a call notice from Ryerson Pan-Pacific LLC ("Ryerson LLC") on 27th October 2008, for the exercise of the call option to acquire an additional 20% interest in VSC-Ryerson China Limited ("VSC-Ryerson China") at a consideration of US$4,304,000 (equivalent to approximately HK$33,571,000). The sale and purchase of the additional 20% interest in VSC-Ryerson China was completed on 31st October 2008. Immediately following the completion of the exercise of call option, the VSC Group's interests in VSC-Ryerson China were reduced from 60% to 40%, making VSC-Ryerson China an associate of the VSC Group.

On 6th December 2008, the VSC Group published a circular for a proposed disposal of a further 20% interest in VSC-Ryerson China to Ryerson LLC, Ryerson Inc. or Rhombus Holding Corporation (or any wholly-owned subsidiary of each of them) through the exercise of a put option (the "VSC Put Option") at a consideration of US$14,200,000 (equivalent to approximately HK$110,760,000). The exercise of VSC Put Option is subject to the approval of the shareholders of the Company at the special general meeting to be held on 23rd December 2008. Should the proposed disposal be approved and CAMP BVI exercised the VSC Put Option, the VSC Group's interests on VSC-Ryerson China will be further reduced to 20% upon completion.

RESULTS

Our revenue for the six months ended 30th September 2008 reached approximately HK$3,046 million, a 9% increase as compared with approximately HK$2,789 million for the same period of last year. Our gross margin increased by 2.5 percentage points to 8.6% as compared with 6.1% for the same period of last year. Selling and distribution expenses increased by 17% from approximately HK$22 million to approximately HK$26 million because of soaring crude oil price which drove up the transportation cost. General and administrative expenses increased by 29% from approximately HK$103 million to approximately HK$133 million. The increase was mainly due to higher employment costs and increase in impairment of trade receivables. The increase in employment costs was mainly due to higher labor cost of VJY as a result of the newly enacted Law Of The People's Republic of China On Employment Contracts ("New Labor Law"). Also, we maintained competitive salaries and incentives to motivate and retain good performing staffs. With more and more plants closing down in the Shenzhen and Dongguan area, we took a conservative approach in evaluating our doubtful debts resulting in an increase of approximately HK$14 million in impairment of trade receivables.

Profit attributable to the equity holders of the Company was approximately HK$34 million, a 62% increase from approximately HK$21 million for the same period of last year.

Basic earnings per share increased by 60% to HK9.1 cents as compared with HK5.7 cents for the same period of last year. No interim dividend was declared for the six months ended 30th September 2008 (2008 interim: HK1.1 cents per ordinary share). Although the VSC Group's customary practice is to pay more than 20% of its earnings as dividend, the Board, after carefully considering the current crisis in the financial market, has decided to withhold the interim dividend.

In terms of assets performance, the VSC Group's average overall inventory turns was 5.8 times which was worse than that for the same period of last year as a result of increased inventory position by the Hong Kong Steel Distribution Department. The VSC Group's average overall Day Sales Outstanding ("DSO") for the six months ended 30th September 2008 improved from 51 days to 44 days as compared with that for the same period last year.

FINANCIAL POSITIONS

Compared with last fiscal year ended 31st March 2008, as at 30th September 2008, the VSC Group's total assets increased by approximately HK$81 million to approximately HK$2,934 million. The VSC Group's inventories increased by approximately HK$293 million while trade and bill receivables decreased by approximately HK$133 million. Net assets value of the VSC Group increased from approximately HK$1,078 million to approximately HK$1,137 million, equivalent to HK$3.0 per ordinary share.

Compared with the financial position at 31st March 2008, the VSC Group's cash and cash equivalents and pledged bank deposits, decreased by approximately HK$61 million to approximately HK$425 million whereas the VSC Group's bank borrowings increased by approximately HK$126 million. Current ratio is maintained at 1.5, while gearing ratio (net debt, which is total borrowings less pledged bank deposits and cash and cash equivalents, divided by total equity (excluding minority interests) plus net debt) increased from 45% to 50% because of increased borrowings as a result of increased inventory position by the Hong Kong Steel Distribution Department.

FINANCIAL RESOURCES

VSC Group's trade financing remained primarily supported by its HK$2.0 billions bank trading and term loan facilities. About 48% of the VSC Group's total borrowings were denominated in Hong Kong dollar, 11% in Renminbi ("RMB") and 41% in US dollar. About 92% of the VSC Group's total borrowing is repayable in one year, 5% was repayable between one and two years and 3% was repayable between two and five years. These facilities are either secured by VSC Group's property, plant and equipment and leasehold land and land use rights and/or VSC Group's inventory held under short-term trust receipts bank loan arrangement and/or inventories held under collateral management and/or pledged bank deposits and/or corporate guarantee provided by VSC. All of the above borrowings in Hong Kong are subject to floating interest rate. Interest costs of import bank loans were levied on inter-banks borrowing rates plus very competitive margin. RMB loans and bill exchange facilities have been obtained from domestic and foreign banks in the amount of RMB124 million. Interest costs of RMB banking facilities were based on standard loan rates set by the People's Bank of China adjusted with competitive margin.

Interest rate swap contracts were entered into to hedge against major interest rate exposures. As at 30th September 2008, there were outstanding interest rate swap contracts to hedge against HK$48 million of the VSC Group's borrowings.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

The VSC Group's businesses were primarily transacted in Hong Kong dollar, US dollar, RMB and Euro dollar. As exchange rate between HK dollar and the US dollar is pegged, the VSC Group believes its exposure to exchange rate risk arising from US dollar is not material. Facing the appreciation of RMB, the VSC Group will continue to match RMB payments with RMB receipts to minimize exchange exposure. Transaction values involving Euro dollar were relatively insignificant.

Forward foreign currency contracts were entered into when suitable opportunities arise and when considered appropriate to hedge against major foreign currency exposures. As at 30th September 2008, the outstanding derivative instruments of the VSC Group included forward foreign currency contracts, which were used to hedge principal repayment of future US dollars debts under letter of credit in the amount of approximately HK$187 million and currency swap contracts, which were used to hedge principal repayment of future RMB debts in the amount of approximately RMB452 million. It is the VSC Group's policy not to enter into any derivative transaction for investment purpose as such activity is deemed to be too speculative and a deviation from the VSC Group's core competence.

CHARGES ON ASSETS

As at 30th September 2008, the VSC Group had certain charges on assets which included (i) buildings of approximately HK$27 million, leasehold land and land use rights of approximately HK$6 million, equipment of approximately HK$25 million and inventories of approximately HK$56 million pledged for certain of the VSC Group's short-term bank loans; (ii) certain inventories were held under short-term trust receipts bank loan arrangements, and (iii) bank deposits of approximately HK$135 million were pledged as collateral for the VSC Group's banking facilities and approximately HK$2 million was restricted as custom deposits in Mainland China.

CONTINGENT LIABILITIES

As at 30th September 2008, the VSC Group had outstanding performance bonds for its sanitary wares supply projects amounting to approximately HK$0.6 million (31st March 2008: HK$1.4 million).

REVIEW OF OPERATIONS

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

The VSC Group's CAMP operation comprises of three business units engaging in processing of rolled flat steel products in coil service centres, manufacture of enclosure systems and distribution of plastic resins. For the six months ended 30th September 2008, revenue of CAMP decreased 6% from HK$1,207 million to HK$1,137 million. However, segment results increased 130% to HK$84 million.

Coil Service Centre Operations

The coil service centre operations grouped under VSC-Ryerson China Limited ("VSC-Ryerson China") is a substantial investment of the VSC Group, which owned a 60% shareholding interest. US-based Ryerson Inc. owns the other 40%.

For the period under review, total processed tons decreased 19% from 102,423 metric tons to 83,037 metric tons. The decrease was primarily due to a stricter pricing policy in Southern China where we increased our margin expectations to improve profitability as well as a decrease in consumption due to a weak export market.

In spite of the decrease in total processed tons, net revenue for the same period increased 6.2%. We were able to capture the market increases and our gross margin increased from HK$38 million to HK$124 million. All coil service centres registered substantial improvement in margin and profitability.

Segment results increased from HK$16 million to HK$91 million and includes write-down of inventories and impairment of trade receivables. We will continue to be conservative in our reserve planning in both inventory and doubtful debt.

Plastics Resins Distribution (“Plastics”)

For the period under review, sales volume increased 1% while revenue increased by 16%. Our Plastics team was able to capture market increases and therefore grow revenue in spite of only a slight increase in sales volume.

Gross margin increased by 28% and segment result increased by 15%. This includes HK$3.5 million impairment of trade receivable. In light of the recent volatility in the global market, we remain committed to our customers.

However, in today’s financial environment, we will maintain a conservative and cautious approach to doubtful debt.

Enclosure Systems Manufacturing (“VJY”)

VJY operation continued to experience losses resulted from high raw material costs and lower customer demand as well as increased labor cost as a result of the New Labor Law. The company had decided to consolidate and scale down the operation and evaluate the possibility of rationalize the capabilities of VJY into VCS-Ryerson China.

(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. Revenue of CMG for the period increased by 22% to HK$1,909 million and segment results was HK$59 million, which represented a 73% increase over the same period of last year’s HK$34 million.

Our CMG operation is benefiting from a continuous rise of steel price in the first half of the year. All operation experienced a positive growth. The Hong Kong Steel Distribution Department segment result increased from $25 million to $48 million, a rise of 92%. Our delivery to the Macau market had helped to offset slower demand from the Hong Kong Market. The Building Product Department also did quite well in terms of revenue and segment results, reaching a $160 million and $5 million, respectively. The distribution of TOTO sanitary ware forms the core of this business. The introduction of the advance “Neorest” series is a success and gives us increase market share and customer satisfaction. Our joint venture trading operation, Shanghai Bao Shun Chang, finish the first half year with HK$896 million in revenue, a 30% increase from the same period of last year. Segment results improved from HK$6 million to HK$13 million.

Global commodity financial industries’ value destruction disaster in September 2008 had changed the landscape. We are seeing a slow down in Hong Kong construction industry for early part of 2009, despite the government’s effort to start the infrastructure investment. The Macau market will continue to be slow in the coming year. We are focusing ourselves in our core steel business and finding ways to improve our internal efficiency, optimize our inventory level and reduce our DSO.

PROSPECTS

The fallout from the global economic environment is anticipated to worsen and the economic growth of the PRC is also expected to slow down as a result of the recent global financial crisis. The global steel supply market and the steel price are so volatile that the VSC Group has not experienced such a chaotic market in its history of operation. The management has taken a very prudent approach in its strategies to address such macro environment. In the foreseeable future, consistent with the region and the market sector, the VSC Group will be in a consolidation mode to ensure that it is in a sound position to survive under such chaos in the market and ready to capitalize any new profitable opportunities again when the market turns.

Closer to home, the VSC Group is cautiously optimistic about the demand in steel in Hong Kong following the government's commitment in speeding up the local major infrastructure projects after the global financial turmoil. The VSC Group is confident that these infrastructure projects will create ample demand for steel supply in the future.

INTERIM DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30th September 2008.

PURCHASE, SALE OR 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 2008.

AUDIT COMMITTEE

The Audit Committee has been set up since December 1998 and now consists of four independent non-executive directors. The VSC Group's unaudited condensed consolidated interim financial information for the six months ended 30th September 2008 now reported on have been reviewed by the Audit Committee.

CODE ON CORPORATE GOVERNANCE PRACTICES

VSC has applied the principles and complied with all the applicable code provisions of the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") for the six months ended 30th September 2008, except for the deviations herein below mentioned:

1. The CG Code provision A.2.1 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. The CG Code provisions A.4.1 stipulates that the non-executive directors should be appointed for a specific term, subject to re-election. VSC's non-executive Directors (except for Mr. Harold Richard Kahler) are not appointed for a specific term. They are (including all other Directors) however, subject to retirement by rotation and re-election every three years according to the Company's Bye-Laws.

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

This results announcement is published on the website of VSC (www.vschk.com) and The Stock Exchange of Hong Kong Limited (www.hkex.com.hk). The interim report for the six months ended 30th September 2008 of VSC containing all information required by the Listing Rules will be despatched to shareholders and available on the same websites in due course.

On behalf of the Board
Andrew Cho Fai Yao
Chairman

Hong Kong, 12th December 2008

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