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 2010

The Board of Directors (the "Board") of Van Shung Chong Holdings Limited (the "Company") hereby announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "VSC Group") for the six months ended 30th September 2010, together with comparative figures, as follows:

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the six months ended 30th September 2010

		For the six months ended 30th September	
		2010	2009
	Note	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Revenue	*3*	**2,049,544**	1,583,676
Cost of sales	*5*	**(1,992,209)**	(1,424,023)
Gross profit		**57,335**	159,653
Other gains – net	*4*	**62,021**	12,851
Selling and distribution expenses	*5*	**(13,864)**	(10,864)
General and administrative expenses	*5*	**(67,776)**	(65,341)
Operating profit		**37,716**	96,299
Finance income	*6*	**394**	414
Finance costs	*6*	**(13,316)**	(9,831)
Share of profit/(loss) of associates – net		**797**	(16,781)
Profit before income tax		**25,591**	70,101
Income tax expense	*7*	**(1,358)**	(15,970)
Profit for the period		**24,233**	54,131

	Note	For the six months ended 30th September	
		2010	2009
		HK$'000	*HK$'000*
		(Unaudited)	(Unaudited)
Attributable to:			
Equity holders of the Company		**21,796**	50,203
Minority interest		**2,437**	3,928
		24,233	54,131
Earnings per ordinary share for profit attributable to the equity holders of the Company during the period			
– Basic	*9*	**HK5.3 cents**	HK12.9 cents
– Diluted	*9*	**HK5.1 cents**	HK12.9 cents
Dividends	*8*	**5,384**	12,391

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30th September 2010

	For the six months ended 30th September	
	2010	2009
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit for the period	**24,233**	54,131
Other comprehensive income		
Currency translation differences	**2,255**	–
Total comprehensive income for the period	**26,488**	54,131
Total comprehensive income attributable to:		
– Equity holders of the Company	**22,989**	50,203
– Minority interest	**3,499**	3,928
	26,488	54,131

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
As at 30th September 2010

	Note	**As at 30th September 2010** *HK$'000* **(Unaudited)**	As at 31st March 2010 *HK$'000* (Audited)
Non-current assets			
Property, plant and equipment		**18,713**	21,441
Investment property		**–**	15,000
Leasehold land and land use rights		**10,829**	10,930
Investments in associates		**146,715**	241,304
Deferred income tax assets		**29,326**	25,267
Total non-current assets		**205,583**	313,942
Current assets			
Inventories		**316,873**	245,720
Trade and bill receivables	*10*	**516,554**	409,826
Loan receivables		**21,923**	24,500
Prepayments, deposits and other receivables		**125,185**	178,756
Derivative financial instruments		**38**	990
Amounts due from associates		**21,668**	52,344
Pledged bank deposits		**45,451**	57,182
Cash and cash equivalents		**295,079**	160,935
Total current assets		**1,342,771**	1,130,253
Current liabilities			
Trade and bill payables	*11*	**116,018**	247,473
Receipts in advance		**72,356**	24,888
Accrued liabilities and other payables		**51,419**	99,399
Derivative financial instruments		**1**	–
Current income tax liabilities		**8,272**	7,105
Borrowings		**632,491**	410,281
Total current liabilities		**880,557**	789,146
Net current assets		**462,214**	341,107
Total assets less current liabilities		**667,797**	655,049

	Note	As at 30th September 2010 HK$'000 (Unaudited)	As at 31st March 2010 HK$'000 (Audited)
Non-current liabilities			
Derivative financial instruments		**–**	133
Deferred income tax liabilities		**5**	5
Borrowings		**–**	3,925
Total non-current liabilities		**5**	4,063
Net assets		**667,792**	650,986
Equity			
Capital and reserves attributable to equity holders of the Company			
Share capital		**41,413**	41,413
Reserves			
– Proposed dividend		**5,384**	9,939
– Others		**587,667**	569,805
		634,464	621,157
Minority interest		**33,328**	29,829
Total equity		**667,792**	650,986

NOTES

1 BASIS OF PREPARATION

The unaudited condensed consolidated interim financial information for the six months ended 30th September 2010 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 2010, 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 2010, 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/revised standards and amendments to existing standards are mandatory for the first time for the financial year beginning 1st April 2010 and are relevant for the VSC Group.

- HKFRS 2 (Amendment), 'Group Cash-settled Share-based Payment Transactions'. In addition to incorporating HK(IFRIC) – Interpretation 8, 'Scope of HKFRS 2' and HK(IFRIC) – Interpretation 11, 'HKFRS 2 – Group and Treasury Share Transactions', the amendment expands on the guidance in HK(IFRIC) – Interpretation 11 to address the classification of group arrangements that were not covered by the interpretation.

- HKFRS 3 (revised), 'Business combinations', and consequential amendments to HKAS 27, 'Consolidated and separate financial statements', HKAS 28, 'Investments in associates', and HKAS 31, 'Interests in joint ventures'. The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with HKFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

  As the VSC Group has adopted HKFRS 3 (revised), it is required to adopt HKAS 27 (revised), 'Consolidated and separate financial statements', at the same time. HKAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss.

- HK(IFRIC)-Int 17, 'Distributions of non-cash assets to owners' is effective for annual periods beginning on or after 1st July 2009. The interpretation is part of the Hong Kong Institute of Certified Public Accountants' (the "HKICPA") annual improvements project published in May 2009. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. HKFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable.

The following standards, amendments and interpretations to existing standards are effective in 2010 but not relevant to the VSC Group:

- Amendment to HKFRS 1, 'Additional exemptions for first-time adopters'. This is not relevant to the VSC Group, as it is an existing HKFRS preparer.

- Amendment to HKAS 32, 'Classification of rights issues'. This is not relevant to the VSC Group, as it has no rights issues.

- HKAS 39 (Amendment), 'Eligible hedged items'. That is not currently applicable to the VSC Group, as it has no hedging.

- First improvements to HKFRS (2008) were issued in October 2008 by the HKICPA. The improvement related to HKFRS 5 'Non-current assets held for sale and discontinued operations'.

- Second improvements to HKFRS (2009) were issued in May 2009 by the HKICPA. All improvements are effective in the financial year of 2010.

3 REVENUE AND SEGMENT INFORMATION

The VSC Group's revenue consists of the following:

	For the six months ended 30th September	
	2010	2009
	HK$'000	*HK$'000*
Sales of goods	**2,048,580**	1,582,821
Rental income	**964**	855
Total revenue	**2,049,544**	1,583,676

The VSC Group's businesses are managed according to the nature of their operations and the products and services they provide.

Management has determined the operating segments based on the reports reviewed by the VSC Group's Chief Operating Decision Maker ("CODM") that are used to make strategic decisions. The CODM considers the VSC Group operates predominantly in four operating segments:

(i) Steel distribution;

(ii) Building products;

(iii) Plastics; and

(iv) Property investment

Other operations mainly comprise other investments which do not constitute separately reportable segments.

The VSC Group's CODM assesses the performance of operating segments based on a measure of profit before tax. This measurement basis excludes the effects of non-recurring expenditure from the operating segments, such as legal expenses and impairments, when the impairment is the result of an isolated, non-recurring event.

The revenue from external parties reported to CODM is measured in a manner consistent with that in the unaudited condensed consolidated interim financial information.

Analysis of the VSC Group's results by the business segments for the six months ended 30th September 2010 is as follows:

	Steel distribution *HK$'000*	**Building products** *HK$'000*	**Plastics** *HK$'000*	**Property investment** *HK$'000*	**Other operations** *HK$'000*	**Unallocated** *HK$'000*	**Total** *HK$'000*
External revenue	**1,650,318**	**187,986**	**210,936**	**304**	**–**	**–**	**2,049,544**
Operating profit/(loss)	**58**	**14,436**	**7,685**	**175**	**40,469**	**(25,107)**	**37,716**
Finance income	**106**	**26**	**2**	**–**	**93**	**167**	**394**
Finance costs	**(11,883)**	**(1,014)**	**(265)**	**–**	**(6)**	**(148)**	**(13,316)**
Share of profit/(loss) of associates – net	**–**	**–**	**–**	**1,774**	**(977)**	**–**	**797**
(Loss)/profit before tax	**(11,719)**	**13,448**	**7,422**	**1,949**	**39,579**	**(25,088)**	**25,591**
Other gains – net	**19,857**	**180**	**96**	**–**	**41,763**	**125**	**62,021**
Depreciation and amortisation	**(779)**	**(887)**	**(26)**	**–**	**–**	**(1,927)**	**(3,619)**
Income tax credit/ (expense)	**147**	**(2,320)**	**(970)**	**–**	**(11)**	**1,796**	**(1,358)**

Analysis of the VSC Group's results by the business segments for the six months ended 30th September 2009 is as follows:

	Steel distribution *HK$'000*	Building products *HK$'000*	Plastics *HK$'000*	Property investment *HK$'000*	Other operations *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
External revenue	1,292,299	173,397	116,990	680	310	–	1,583,676
Operating profit/(loss)	97,748	6,766	4,433	11,061	(2,646)	(21,063)	96,299
Finance income	129	–	4	–	10	271	414
Finance costs	(7,007)	(363)	(423)	–	(322)	(1,716)	(9,831)
Share of profit/(loss) of associates – net	–	–	–	2,695	(19,476)	–	(16,781)
Profit/(loss) before tax	90,870	6,403	4,014	13,756	(22,434)	(22,508)	70,101
Other (losses)/gains – net	(1,195)	(31)	(3)	10,448	574	3,058	12,851
Depreciation and amortisation	(840)	(861)	(19)	–	–	(1,966)	(3,686)
Income tax (expense)/ credit	(18,259)	(1,238)	(496)	(409)	(161)	4,593	(15,970)

The Company is domiciled in Hong Kong. Analysis of the VSC Group's revenue by geographical market is as follows:

	For the six months ended 30th September	
	2010	2009
	HK$'000	*HK$'000*
Revenue		
Mainland China	**947,905**	929,064
Hong Kong	**1,101,639**	654,612
Total revenue	**2,049,544**	1,583,676

For the six months ended 30th September 2010, revenue of approximately 8.5% (for the six months ended 30th September 2009: 4.7%) was derived from a single external customer.

4 OTHER GAINS – NET

	For the six months ended 30th September	
	2010	2009
	HK$'000	*HK$'000*
Gain on disposal of an investment property	**–**	10,448
Amount recovered from an available-for-sale financial asset fully impaired previously	**–**	386
Net exchange gain	**4,143**	89
Sundry income	**1,547**	1,259
Fair value gain on interest rate instruments	**131**	1,968
Net fair value gains on forward foreign exchange contracts held for trading	**–**	121
Losses on steel future contracts	**(8,117)**	(1,420)
Write-back of provision for onerous contracts	**23,898**	–
Gain on disposal of an associate	**40,419**	–
	62,021	12,851

5 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	
	2010	2009
	HK$'000	*HK$'000*
Raw materials consumed and finished goods sold	**1,992,548**	1,422,288
(Write-back of)/write-down of inventories	**(1,042)**	1,735
Depreciation of property, plant and equipment	**3,518**	3,585
Loss on disposals of property, plant and equipment	**8**	2
Amortisation of leasehold land and land use rights	**101**	101
Employee benefit expenses	**36,516**	32,650
Operating lease rental in respect of land and buildings	**6,833**	7,556
(Write-back of)/impairment of trade receivables	**(564)**	3,098
Others	**35,931**	29,213
Total cost of sales, selling and distribution expenses and general and administrative expenses	**2,073,849**	1,500,228

6 FINANCE INCOME AND COSTS

	For the six months ended 30th September	
	2010	2009
	HK$'000	*HK$'000*
Finance income		
Interest income:		
– short-term bank deposits	**334**	206
– from an associate	**60**	208
	394	414
Finance costs		
Interest expenses:		
– bank borrowings wholly repayable within five years	**(7,578)**	(6,027)
Bank charges	**(5,738)**	(3,804)
	(13,316)	(9,831)
Net finance costs	**(12,922)**	(9,417)

7 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profit arising in or derived from Hong Kong.

The National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "CIT Law") on 16th March 2007 and the State of Council announced the Detail Implementation Regulations ("DIR") on 6th December 2007. According to the CIT Law, the income tax rates for both domestic and foreign investment enterprises are unified at 25% effective from 1st January 2008. However, for enterprises which are established before the publication of the CIT Law and are entitled to preferential treatments of reduced income tax rate granted by relevant tax authorities, the income tax rate is gradually increased to 25% within 5 years after the effective date of the CIT Law. Enterprises that are currently entitled to exemptions or reductions from the standard income tax rate for a fixed term continue to enjoy such treatment until the fixed term expires. During the period, subsidiaries established in Mainland China are subject to China corporate income tax at rate of 25% (2009: 25%).

The amount of income tax expense recorded in the unaudited condensed consolidated interim income statement represents:

	For the six months ended 30th September	
	2010	2009
	HK$'000	*HK$'000*
Current income tax		
– Hong Kong profits tax	**2,119**	1,328
– China corporate income tax	**3,070**	2,171
Deferred income tax	**(3,831)**	12,471
	1,358	15,970

Income tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year.

8 DIVIDENDS

An interim dividend of HK1.3 cents per ordinary share (2010 interim: HK3 cents per ordinary share) was proposed by the board of directors on 10th November 2010. This interim dividend, amounting to approximately HK$5,384,000 (2010 interim: approximately HK$12,391,000), has not been recognised as a liability in this unaudited condensed consolidated interim financial information.

9 EARNINGS PER ORDINARY SHARE

(a) Basic

Basic earnings per ordinary 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	
	2010	2009
Profit attributable to equity holders of the Company *(HK$'000)*	**21,796**	50,203
Weighted average number of ordinary shares in issue *('000)*	**414,128**	390,235
Basic earnings per ordinary share *(HK cents)*	**5.3**	12.9

(b) Diluted

Diluted earnings per ordinary 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	
	2010	2009
Profit attributable to equity holders of the Company *(HK$'000)*	**21,796**	50,203
Weighted average number of ordinary shares in issue *('000)*	**414,128**	390,235
Adjustment for share options *('000)*	**9,452**	–
Weighted average number of ordinary shares for diluted earnings per ordinary share *('000)*	**423,580**	390,325
Diluted earnings per ordinary share *(HK cents)*	**5.1**	12.9

10 TRADE AND BILL RECEIVABLES

Sales are either covered by (i) letters of credit with bill payable at sight or (ii) open account with credit terms of 15 to 60 days.

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

	As at 30th September 2010 *HK$'000*	As at 31st March 2010 *HK$'000*
0 – 60 days	**461,949**	371,468
61 – 120 days	**48,517**	32,479
121 – 180 days	**3,929**	4,729
181 – 365 days	**3,109**	1,121
Over 365 days	**13,502**	15,051
	531,006	424,848
Less: Provision for impairment of trade receivables	**(14,452)**	(15,022)
	516,554	409,826

The carrying amounts of net trade and bill receivables approximated their fair values.

11 TRADE AND BILL PAYABLES

Payment terms with suppliers are either on letters of credit or open account. Certain suppliers grant credit period of around 30 days.

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

	As at 30th September 2010 *HK$'000*	As at 31st March 2010 *HK$'000*
0 – 60 days	**113,727**	242,003
61 – 120 days	**17**	4,050
121 – 180 days	**1,675**	83
181 – 365 days	**2**	438
Over 365 days	**597**	899
	116,018	247,473

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

12 COMMITMENTS

(a) Capital commitments

Capital commitments in respect of an investment property is as follows:

	As at 30th September 2010 *HK$'000*	As at 31st March 2010 *HK$'000*
Contracted but not provided for	**19,500**	–

(b) Commitments under operating leases

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

	As at 30th September 2010 *HK$'000*	As at 31st March 2010 *HK$'000*
Not later than one year	**11,211**	10,083
Later than one year and not later than five years	**8,487**	5,305
Later than five years	**483**	758
	20,181	16,146

(c) **Commitments under derivative contracts**

As at 30th September 2010, the VSC Group had outstanding forward foreign exchange contracts to purchase approximately US$1,000,000 (31st March 2010: US$1,000,000) for approximately HK$7,760,000 (31st March 2010: HK$7,760,000). The settlement date is 26th May 2011.

As at 30th September 2010, the VSC Group had outstanding steel future contracts to purchase 6,000 metric tones of rebar at RMB25,374,000 (31st March 2010: 10,000 metric tonnes of rebar at approximately RMB47,600,000).

As at 30th September 2010, the VSC Group had outstanding interest rate instrument with a notional principal amount of approximately HK$7,760,000 (31st March 2010: HK$11,689,000). The settlement date is 8th September 2011.

RESULTS

Revenue for the six months ended 30th September 2010 was approximately HK$2,050 million, a 29% increase as compared with approximately HK$1,584 million for the same period of last year. The major contributor was Hong Kong Steel Distribution operation which benefitted from the booming property market in Hong Kong. Gross profit margin, however, decreased by 7.3 percentage points to 2.8% as compared with 10.1% for the same period of last year. This was due to a sudden surge in steel price in late March 2010 which significantly eroded the profit margin of the Hong Kong Steel Distribution operations. The steel price quickly corrected in May 2010 and stabilized since then. Selling and distribution expenses increased by 28% from approximately HK$11 million to approximately HK$14 million. The increase was in line with the increase in revenue. General and administrative expenses slightly increased by 4% from approximately HK$65 million to approximately HK$68 million.

On 3rd June 2010, the VSC Group entered into a share repurchase agreement to dispose the remaining 20% interest in Ryerson China Limited for US$17.5 million, equivalent to approximately HK$136 million. The transaction was completed in July 2010 and a gain of approximately HK$40 million was recognized as other gain.

Profit attributable to the equity holders of the Company was approximately HK$22 million, a 57% decrease from approximately HK$50 million for the same period of last year. Basic earnings per ordinary share decreased by 59% to HK5.3 cents as compared with HK12.9 cents for the same period of last year. The interim dividend of HK1.3 cents per ordinary share was declared for the six months ended 30th September 2010 (2010 interim: HK3 cents).

FINANCIAL POSITIONS

Compared with last fiscal year ended 31st March 2010, as at 30th September 2010, the VSC Group's total assets increased by approximately HK$104 million to approximately HK$1,548 million. The VSC Group's inventories increased by approximately HK$71 million to approximately HK$317 million. The average Days of Supplies (average inventories divided by cost of sales x 183 days) was 26 days which was better than that of 29 days for the last year end. The VSC Group's trade and bill receivables increased by approximately HK$107 million to approximately HK$517 million. The average overall Day Sales Outstanding (average trade and bill receivables divided by revenue x 183 days) increased from 32 days for the last year end to 41 days for the six months ended 30th September 2010. Net assets value of the VSC Group increased by approximately HK$17 million to approximately HK$668 million, equivalent to HK$1.61 per ordinary share.

Compared with the financial position at 31st March 2010, the VSC Group's cash and cash equivalents and pledged bank deposits, increased by approximately HK$122 million to approximately HK$341 million while the VSC Group's bank borrowings increased by approximately HK$218 million to approximately HK$632 million. Current ratio improved to 1.52, while gearing ratio (net debt, which is total borrowings minus pledged bank deposits and cash and cash equivalents, divided by capital and reserves attributable to equity holders plus net debt) increased from 24% to 32%.

FINANCIAL RESOURCES

All of the VSC Group's financing and treasury activities are centrally managed and be controlled at the corporate level. The VSC Group's overall treasury and funding policies focus on managing financial risks, and on cost efficient funding of the VSC Group and its group companies. The VSC Group always adhered to prudent financial management principles.

The VSC Group's trade financing remained primarily supported by its bank trading and term loan facilities. About 81% of the VSC Group's total borrowings were denominated in HK dollar, about 14% in Chinese Renminbi ("RMB") and about 5% in US dollar and all repayable in one year. These facilities are either secured by the VSC Group's inventory held under short-term trust receipts bank loan arrangement and/or pledged bank deposits and/or corporate guarantee provided by the Company. All of the above borrowings were on floating rate basis. 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 RMB78 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.

CHARGES ON ASSETS

As at 30th September 2010, the VSC Group had certain charges on assets which included (i) inventories of approximately HK$32 million pledged for certain of the VSC Group's short-term bank loans; (ii) certain inventories were held under trust receipts bank loan arrangements, and (iii) bank deposits of approximately HK$45 million which were pledged as collateral for the VSC Group's banking facilities, performance bonds and steel future contracts.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The VSC Group's businesses were primarily transacted in HK dollar, US dollar and RMB. 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.

Forward foreign exchange contracts would be entered into when suitable opportunities arise and when management of the VSC Group consider appropriate, to hedge against major non-HK dollar currency exposures. 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.

CONTINGENT LIABILITIES

As at 30th September 2010, there was no material contingent liability.

OPERATION REVIEW AND PROSPECTS

Steel Distribution

Steel distribution operations comprise stockholding business of rebar, structural steel and engineering products in Hong Kong and steel distribution in the Peoples' Republic of China ("PRC"). The VSC Group has a 66.7% owned joint venture – Shanghai Bao Shun Chang ("BSC"), which engages in the distribution of domestic steel products in Eastern China.

Hong Kong Steel Distribution ("HK Steel Department")

Our rebar business' market share has improved and gone from strength to strength since the same period of last year. Our backlog orders have increased from 174,000 metric tonnes as of end of September 2009 to 216,000 metric tonnes as of end of March 2010 and now to over 233,000 metric tonnes as of end of September 2010. The HK Steel Department continues to catch the rise of demand and has obtained contracts to distribute rebar to various projects. Customer base has also been further widened, with total sales of over 179,000 metric tonnes in the first half of the financial year ending 31st March 2011 ("FY2011") and generating revenue of over HK$844 million.

With the launch of some of the 10 major infrastructure projects by the Hong Kong Government, it is expected that the demand of steel will further boost up this year with these infrastructure projects. The local property construction market looks strong as well. This provides a good opportunity for the VSC Group and we also expect to perform well in this market. Our overall market share has also increased due to our HK Steel Department winning more projects across all segments of the market. Recently, the VSC Group secured orders from the Kai Tak Development Plan and Guangzhou-Shenzhen-Hong Kong Express Rail Link projects. The VSC Group also received orders from many clients that have been awarded government housing and private residential development projects.

The volatility of the steel market continues to provide huge challenges for the HK Steel Department and we once again experience some of this impact in the first quarter of 2010 when the price of rebars from the mills spiked in late first quarter of this year. This high cost of goods sold was reflected in our interim results as you will see from the performance of the HK Steel Department. Much of this impact had been predicted and reserves had been set aside for the financial year ended 31st March 2010 ("FY2010"). Thus the impact to our first half financial statements has been mitigated to some degree.

On the positive side, the leadership team has managed to secure much lower costs rebars in the second and third quarter of 2010, thus we are cautiously optimistic for the remainder of FY2011.

Mainland China Steel Distribution ("PRC Steel Department")

We are glad to inform our shareholders that our dual strategy of going direct to the "end-users" of steel infrastructures in China as well as the move towards international projects has been very successful. Our international project sales has increased significantly. The profitability has also improved tremendously by 2-3 times that of domestic sales.

Our 66.7% owned joint venture BSC faces challenges from the changing government policies on steel industry. Its revenue increased from HK$654 million to HK$754 million and managed to pass on most of the price risk to its customers. Nevertheless, its gross profit dropped slightly due to the volatile steel prices.

Building Products Distribution

The business units of Building Products Distribution mainly engages in distributing sanitary wares in Hong Kong, Shanghai, Shenzhen and Macau. Total revenue of the Building Products Distribution amounted to approximately HK$188 million for the period under review.

PRC Leisure Plus (Shanghai and Shenzhen)

During the six months under review, Shanghai and Shenzhen Leisure Plus reported a revenue of approximately HK$127 million which represents over 67% of our total Building Products Distribution's revenue. This signifies the huge success of our strategy to enter into the China market over the last 5-7 years. Our strength in our channels development in Shanghai and also key account development in Shenzhen also complements our "close working" and strategic partnership with our key supplier TOTO. We are constantly exploring to enhance our current as well as add more strategic partnerships to create value for our shareholders.

Hong Kong Leisure Plus

Hong Kong Leisure Plus recorded a revenue of approximately HK$61 million, this represents 33% increase from last year's HK$46 million for same period. It engages in projects, wholesale distribution and retail for sanitary wares and fittings, kitchen cabinets and home furniture for Hong Kong and Macau markets. Leisure Plus, the one-stop lifestyle home solution provider in Wanchai, offers a delicate combination of balances that turn customer's house into a home. Hong Kong Leisure Plus currently has contracts-on-hand worth approximately HK$21 million, which includes some major projects such as supply of sanitary wares for Ocean Park, Times Square, HSBC Headquarter, Hong Kong Convention and Exhibition Centre, Tamar Government Headquarter, etc.

Plastic Resins Distribution ("Plastics Department")

Plastics Department distributes general and engineering plastics in Hong Kong and Mainland China. It currently has business presence in Guangzhou, Shenzhen, Shanghai and Hong Kong.

Since the economic crisis in 2008-2009, our business has improved tremendously. For the past half year, we have generated revenue of over HK$211 million at a very respectable margin of over 6%. Learning from our lessons in FY2010, we are increasing our presence in China into Eastern China region (e.g. Hangzhou) as well as inland parts of China (e.g. Wuhan) since many Chinese manufacturers have also moved inland due to expensive labor costs in the coastal China cities. In addition to our existing sales offices, we expect to open offices in Wuhan and Hangzhou before the end of this calendar year.

The sales team of Plastics Department also has an aggressive plan to improve their performance. To drive volume growth, a dual strategy – emphasizing on both the higher end products of engineering plastics as well as increasing market share of the commodity plastics – has been implemented. We are confident of the continuing improvement in our Plastics Department's performance for FY2011.

Property Investment

The VSC Group invested in property business by holding a 33.33% stake in an 11-storey office building in Jing An District, Shanghai, where the VSC Group's PRC headquarter is located. Currently, the property is managed by our property management team and the property has an occupancy rate of over 98%. The performance has been above expectations and good returns have been made on the rentals of the retail and office floor space. The appreciation of the property value has also been encouraging. The tenants consist of various international companies which provide a stable income for the property business. Our property management team has been in the real estate properties management business for a number of years and will also explore the opportunities in providing property management and agent services to other projects. Recently, we are also looking at multiple potential property projects in FY2011 and a number of potential deals in various cities in China have been targeted. The management of these properties, service, maintenance and leasing could potential become a substantial portion of our future business in China.

Other Investment

The VSC Group has invested in associated companies which are engaged in hotel business operating in the PRC. In addition to monitoring the expansion of this business, the VSC Group will also continue to search for other potential investment opportunities to enhance the development of business.

We will also continue to explore synergistic businesses to enhance and provide strategic hedge to our existing Steel Distribution business; this would include but not limited to, metals recycling business as mentioned in our FY2010 Annual Report.

Hotel Business

The VSC Group owns 44% interest in a business of budgeted hotel chain operating in the PRC, namely a8 Hotel ("a8"), which currently operates 3 hotels in Shanghai and 2 hotels in Guangzhou, with one more hotel in Shanghai joined a8 as a franchisee. During the period under review, due to the Shanghai World Expo, the hotel business has performed very well with average room occupancy of over 85% and room rates over 20% above the norm. This has generated good positive cash-flow for the company and increased the shareholders' value. The leadership team is re-evaluating the strategic planning of this investment and the best possible way to create maximum shareholders' value here.

INTERIM DIVIDEND

The Directors have declared an interim dividend of HK1.3 cents per ordinary share for the six months ended 30th September 2010 payable to shareholders whose names appear on the register of members of the Company at the close of business on 17th December 2010. Dividend warrants are expected to be despatched to shareholders on or before 22nd December 2010.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 15th December 2010 to 17th December 2010 (both dates inclusive) during which period no transfers of shares will be registered. In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's Registrars in Hong Kong, Computershare Hong Kong Investor Services Limited by not later than 4:00 p.m. (Hong Kong SAR time) on 14th December 2010.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of shares of the Company during the six months ended 30th September 2010.

AUDIT COMMITTEE

The Audit Committee has discussed auditing, internal controls, and financial reporting matters including review of the results for the six months ended 30th September 2010.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company 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 month ended 30th September 2010, 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. The Company 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 the Company'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. The Company'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 websites of the Company (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 2010 of the Company 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, 10th November 2010

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