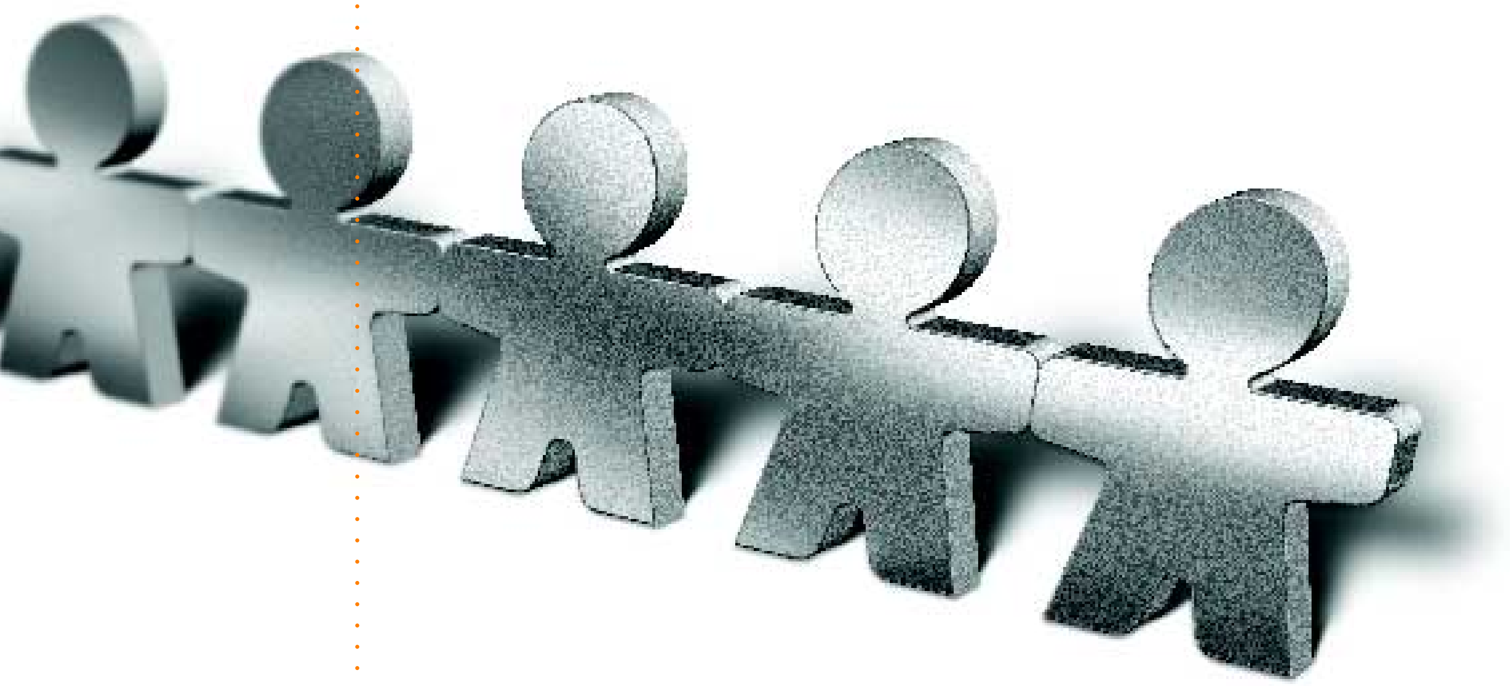
VSC万顺昌

VAN SHUNG CHONG
HOLDINGS LIMITED

INTERIM REPORT 2005 / 06

STEEL SUPPLY CHAIN



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

		For the six months ended 30th September	
		2005	2004
	Notes	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited and restated)
Turnover	*5, 6*	**2,313,673**	1,927,422
Cost of sales		**(2,191,446)**	(1,816,471)
Gross profit		**122,227**	110,951
Other gains – net	*7*	**5,828**	5,809
Selling and distribution expenses	*8*	**(14,325)**	(13,476)
General and administrative expenses	*8*	**(62,527)**	(67,152)
Operating profit		**51,203**	36,132
Finance costs	*9*	**(20,968)**	(7,377)
Profit before income tax		**30,235**	28,755
Income tax expense	*10*	**(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	*11*	**–**	–
Earnings per share for profit attributable to equity holders of the Company during the period	*12*		
– 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 (Audited and restated)
Non-current assets			
Property, plant and equipment	13	**101,107**	103,012
Investment properties	13	**77,488**	71,100
Leasehold land and land use rights	13	**22,884**	23,091
Goodwill	13, 14	**6,775**	8,026
Investment in associates		**5,834**	2
Deferred income tax assets		**13,517**	13,797
Available-for-sale financial assets	15	**12,642**	–
Non-trading securities	15	**–**	34,101
Derivative financial instruments	16	**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	17	**785,701**	736,758
Loans receivable		**–**	6,491
Derivative financial instruments	16	**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	18	**927,679**	910,903
Accounts and bills payable	19	**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

	Notes	As at 30th September 2005 HK$'000 (Unaudited)	As at 31st March 2005 HK$'000 (Audited and restated)
Non-current liabilities			
Borrowings	*18*	**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	*20*	**36,861**	36,861
Reserves	*22*	**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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th September 2005

	For the six months ended 30th September	
	2005	2004
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited and restated)
Balance as at 1st April		
As previously reported as equity	**693,577**	660,558
As previously reported as minority interests	**35,377**	24,166
Effect on adoption of HKAS 17	**88**	73
Opening adjustment on adoption of HKASs 32 and 39	**3,524**	–
Balance as at 1st April, as restated	**732,566**	684,797
Fair value loss		
– available-for-sale financial assets	**(5,376)**	–
– non-trading securities	**–**	(11,499)
Currency translation differences	**1,718**	24
Net expense recognised directly in equity	**(3,658)**	(11,475)
Profit for the period	**25,981**	26,606
Total recognised income for the six months ended 30th September	**22,323**	15,131
Issuance of shares upon exercise of warrants	**–**	227
Share option scheme – value of services	**57**	306
Capital contributions from a minority shareholder of a subsidiary	**1,544**	–
Dividends paid	**(8,720)**	(10,823)
	(7,119)	(10,290)
Balance as at 30th September	**747,770**	689,638

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th September 2005

	For the six months ended 30th September	
	2005	2004
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Net cash used in operating activities	**(46,201)**	(205,917)
Net cash generated from/(used in) investing activities	**2,867**	(2,148)
Net cash (used in)/generated from financing activities	**(19,722)**	191,905
Net decrease in cash and cash equivalents	**(63,056)**	(16,160)
Cash and cash equivalents as at 1st April	**191,986**	117,839
Exchange gains on cash and cash equivalents	**555**	24
Cash and cash equivalents as at 30th September	**129,485**	101,703
Analysis of balances of cash and cash equivalents		
Cash and bank deposits	**129,485**	101,703

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

2. Changes in accounting policies (continued)

(a) Effect of adopting new HKFRS (continued)

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 has resulted 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.

2. Changes in accounting policies (continued)

(a) Effect of adopting new HKFRS (continued)

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 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.

2. Changes in accounting policies (continued)

(a) Effect of adopting new HKFRS (continued)

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	**HKASs 32 and 39**	**HKASs 36 and 38 and HKFRS 3**	**HKAS 40**	**HKFRS 2**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(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)

2. **Changes in accounting policies (continued)**

(a) Effect of adopting new HKFRS (continued)

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

	As at 30th September 2005				
	HKAS 17 *HK$'000* (Unaudited)	**HKASs 32 and 39 (i)** *HK$'000* (Unaudited)	**HKASs 36 and 38 and HKFRS 3** *HK$'000* (Unaudited)	**HKFRS 2** *HK$'000* (Unaudited)	**Total** *HK$'000* (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 *HK$'000*	HKFRS 2 *HK$'000*	Total *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.

2. Changes in accounting policies (continued)

(b) New accounting policies

The accounting policies used for the unaudited condensed consolidated financial information as at and for the six months ended 30th September 2005 are the same as those set out in Note 1 to the annual financial statements for the year ended 31st March 2005, except for the followings:

2.1 Foreign currency translation

Items included in the financial statements of each of the VSC Group's entities are measured using the currency of the primary economic environment in which the entity operates. The condensed consolidated financial information are presented in Hong Kong dollars.

2.2 Property, plant and equipment

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

2.3 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the VSC Group, is classified as investment property.

Investment property comprises land held under operating leases and buildings held under finance leases. Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs. After initial recognition, investment property is carried at fair value. Fair value is determined based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset by independent external valuers.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in light of current market conditions. Changes in fair values are recognised in the income statement.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the VSC Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the period in which they are incurred.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation reserve of property, plant and equipment under HKAS 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the income statement.

2. Changes in accounting policies (continued)

(b) New accounting policies (continued)

2.4 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the VSC Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

2.5 Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

2.6 Investments

From 1st April 2004 to 31st March 2005, the VSC Group classified its investments in securities as non-trading securities. Non-trading securities were stated at fair value at the balance sheet date. Changes in the fair value of individual securities were credited or debited to the investment revaluation reserve until the security was sold, or was determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus/deficit transferred from the investment revaluation reserve, was dealt with in the income statement. Where there was objective evidence that individual investments were impaired, the cumulative loss recorded in the investment revaluation reserve was taken to the income statement.

From 1st April 2005 onwards, the VSC Group classifies its investments in securities as available-for-sale financial assets. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date. Available-for-sale financial assets are included in non-current assets unless management intends to dispose of the investments within 12 months of the balance sheet date.

2. Changes in accounting policies (continued)

(b) New accounting policies (continued)

2.6 Investments (continued)

Purchases and sales of investments are recognised on trade date – the date on which the VSC Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the VSC Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the VSC Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis.

The VSC Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the securities below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

2.7 Accounts and bills receivable

Accounts and bills receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of accounts and bills receivable is established when there is objective evidence that the VSC Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

2.8 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or share options are shown in equity as a deduction, net of tax, from the proceeds.

2. Changes in accounting policies (continued)

(b) New accounting policies (continued)

2.9 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the VSC Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.10 Share-based compensation

The VSC Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2.11 Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the VSC Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised either as cash is collected or on a cost recovery basis as conditions warrant.

3. Financial risk management

3.1 Financial risk factors

The VSC Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and cash flow interest rate risk.

(a) Foreign exchange risk

The VSC Group operates primarily in Hong Kong and the Mainland China. It is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Hong Kong dollar. Foreign exchange risk arises mainly from future commercial transactions.

3. Financial risk management (continued)

3.1 Financial risk factors (continued)

(a) Foreign exchange risk (continued)

The VSC Group monitors the foreign exchange positions and, where considered to be appropriate, minimizes the foreign exchange risk using forward contracts. The VSC Group's risk management policy is to hedge approximately 25% of anticipated transactions (mainly import purchases) in each major currency for the subsequent 12 months.

(b) Credit risk

The VSC Group has no significant concentrations of credit risk. It has policies in place to ensure that sales are made to customers with an appropriate credit history. Derivative counter parties and cash transactions are limited to high-credit-quality financial institutions. The VSC Group has policies that limit the amount of credit exposure to any financial institutions.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the VSC Group aims to maintain flexibility in funding by keeping committed credit lines available.

(d) Cash flow interest-rate risk

As the VSC Group has no significant interest-bearing assets, the VSC Group's income and operating cash flows are substantially independent of changes in market interest rates.

The VSC Group's interest-rate risk arises from bank borrowings. Bank borrowings issued at variable rates expose the VSC Group to cash flow interest-rate risk. No floating-to-fixed interest rate swaps is entered by the VSC Group to manage the cash flow interest rate risk. VSC Group regularly seeks out the most favorable interest rates available for its bank borrowings.

3.2 Accounting for derivative financial instruments and hedging activities

From 1st April 2004 to 31st March 2005, derivative financial instruments were designated "hedging" or "non-hedging instruments". The transactions that, according to the VSC Group's policy for risk management, were able to meet the conditions for hedge accounting were classified as "hedging" transactions; the others, although set up for the purpose of managing risk (since the VSC Group's policy does not permit speculative transactions), had been designated as "trading". The VSC Group recorded derivative financial instruments at cost. The gains and losses on derivative financial instruments were included in the income statement on maturity to match the underlying hedged transactions where relevant.

For foreign exchange instruments designated as hedges, the premium (or discount) representing the difference between the spot exchange rate at the inception of the contract and the forward exchange rate was included in the income statement, in general and administrative expenses, in accordance with the accrual method.

3. Financial risk management (continued)

3.2 Accounting for derivative financial instruments and hedging activities (continued)

From 1st April 2005 onwards, derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Since the derivative instruments entered into by the VSC Group do not qualify for hedge accounting, changes in the fair value of any derivative instruments are recognised immediately in the income statement.

3.3 Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the VSC Group is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The VSC Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date to determine fair value for the remaining financial instruments. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

The nominal value less estimated credit adjustments of accounts receivable and accounts payable are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the VSC Group for similar financial instruments.

4. Critical accounting estimates

Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The VSC Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimated impairment of goodwill

The VSC Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.4. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

(b) Estimated impairment of available-for-sale financial assets

The VSC Group tests annually whether available-for-sale financial assets has suffered any impairment, in accordance with the accounting policy stated in Note 2.6. The recoverable amounts of available-for-sale financial assets have been determined based on fair value.

4. Critical accounting estimates (continued)

(c) Income taxes and deferred taxes

The VSC Group is subject to income taxes in Hong Kong and the Mainland China. Significant judgement is required in determining the amount of the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred taxation assets and taxation in the periods in which such estimate is changed.

(d) Estimated recoverability of accounts receivable

The VSC Group assesses the recoverability of accounts receivable and provisions for doubtful debts are applied to accounts receivable where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of receivables and doubtful debt expenses in the period in which such estimate has been changed.

(e) Estimated realisability of inventories

The VSC Group writes down inventories to net realisable value based on an assessment of the realisability of inventories. Write-downs on inventories are recorded where events or changes in circumstances indicate that the balances may not be realised. The identification of write-downs requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventories and write-downs of inventories in the periods in which such estimate has been changed.

5. 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")

5. **Segment information (continued)**

Primary reporting format – business segments (continued)

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

5. **Segment information (continued)**

Primary reporting format – business segments (continued)

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

5. **Segment information (continued)**

Primary reporting format – business segments (continued)

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.

6. 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

7. 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

8. **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

9. **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

10. **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

11. **Dividends**

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

12. 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 ('000)	**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 ('000)	**368,605**	367,913
Adjustments for share options ('000)	**–**	4,168
Weighted average number of ordinary shares for diluted earnings per share ('000)	**368,605**	372,081
Diluted earnings per share (HK cents per share)	**6.0**	6.4

13. Capital expenditure

	Property, plant and equipment HK$'000 (Unaudited and restated)	Investment properties HK$'000 (Unaudited)	Leasehold land and land use rights HK$'000 (Unaudited and restated)	Goodwill HK$'000 (Unaudited)
Opening net book amount as at 1st April 2005	**103,012**	**71,100**	**23,091**	**8,026**
Adjustment to purchase consideration for a subsidiary acquired in prior year	**–**	**–**	**–**	**186**
Additions	**7,182**	**–**	**–**	**–**
Revaluation surplus *(Note 7)*	**–**	**6,388**	**–**	**–**
Depreciation/amortisation *(Note 8)*	**(10,128)**	**–**	**(326)**	**–**
Impairment charge *(Note 7)*	**–**	**–**	**–**	**(1,437)**
Translation adjustments	**1,041**	**–**	**119**	**–**
Closing net book amount as at 30th September 2005	**101,107**	**77,488**	**22,884**	**6,775**
Opening net book amount as at 1st April 2004	148,198	36,448	11,241	8,290
Additions	4,661	–	–	–
Disposals	(144)	(2,500)	–	–
Depreciation/amortisation *(Note 8)*	(11,131)	–	(123)	(1,835)
Closing net book amount as at 30th September 2004	141,584	33,948	11,118	6,455
Transfer (to)/from property, plant and equipment	(15,477)	15,477	–	–
Adjustment to purchase consideration for a subsidiary acquired in prior year	–	–	–	3,705
Additions	13,480	–	12,096	–
Disposals	(26,123)	(6,048)	–	–
Revaluation surplus	–	27,723	–	–
Depreciation/amortisation	(10,452)	–	(123)	(2,134)
Closing net book amount as at 31st March 2005	103,012	71,100	23,091	8,026

14. Goodwill

Goodwill, which is arising from the acquisition of subsidiaries in the Mainland China, is allocated to CAMP's cash-generating units ("CGUs") identified according to the nature of business.

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. The key assumptions used for value-in-use calculations are gross margin, growth rate and discount rate of 10.0%, 20.0% and 5.2% respectively.

15. Available-for-sale financial assets/Non-trading securities

	HK$'000 **(Unaudited)**
As at 1st April 2005	**34,101**
Additions	**1,078**
Disposals	**(17,161)**
Revaluation deficit transfer to reserves *(Note 22)*	**(5,376)**
As at 30th September 2005	**12,642**

Available-for-sale financial assets (30th September 2005)/Non-trading securities (31st March 2005) include the following:

	As at 30th September 2005 ***HK$'000*** **(Unaudited)**	As at 31st March 2005 *HK$'000* (Audited)
Listed securities – equity securities in Hong Kong	**6,538**	10,837
Unlisted securities – debt securities of private issuers	**6,104**	23,264
	12,642	34,101

16. Derivative financial instruments

	As at 30th September 2005 ***HK$'000*** **(Unaudited)**
Forward foreign exchange contracts – held-for-trading	**2,867**
Less: non-current portion	**(390)**
Current portion	**2,477**

17. 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 *HK$'000* **(Unaudited)**	As at 31st March 2005 *HK$'000* (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.

18. Borrowings

	As at 30th September 2005	As at 31st March 2005
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Non-current		
Long-term bank loans	**138,889**	166,667
Current		
Trust receipts bank loans	**710,998**	678,004
Short-term bank loans	**149,426**	165,644
Long-term bank loans, current portion	**55,555**	55,555
Other loans from a minority shareholder of a subsidiary	**11,700**	11,700
	927,679	910,903
Total borrowings	**1,066,568**	1,077,570

The maturity of borrowings is as follows:

	Bank borrowings		**Other loans**	
	As at 30th September 2005	As at 31st March 2005	**As at 30th September 2005**	As at 31st March 2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)
Within 1 year	**915,979**	899,203	**11,700**	11,700
Between 1 and 2 years	**138,889**	166,667	**–**	–
	1,054,868	1,065,870	**11,700**	11,700

The carrying amounts of short-term borrowings approximate their fair value.

18. Borrowings (continued)

The carrying amounts and fair value of the non-current borrowings are as follows:

	Carrying amounts		Fair values	
	As at 30th September 2005	As at 31st March 2005	**As at 30th September 2005**	As at 31st March 2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)
Borrowings	**138,889**	166,667	**132,654**	159,859

The fair values are based on cash flows discounted using a rate based on the borrowings rate of 4.7% (31st March 2005: 2.8%).

The carrying amounts of the borrowings are denominated in the following currencies:

	As at 30th September 2005	As at 31st March 2005
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Hong Kong dollar	**809,089**	892,812
US dollar	**128,004**	61,238
Chinese Renminbi	**127,425**	122,644
Other currencies	**2,050**	876
	1,066,568	1,077,570

The effective interest rates of bank borrowings at the balance sheet date were as follows:

	As at 30th September 2005	As at 31st March 2005
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Hong Kong dollar	**4.7%**	2.6%
US dollar	**4.4%**	3.3%
Chinese Renminbi	**5.3%**	5.3%

19. 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 *HK$'000* **(Unaudited)**	As at 31st March 2005 *HK$'000* (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

20. Share capital

	Number of shares *'000*	Nominal value *HK$'000*
Authorised (Ordinary shares of HK$0.10 each)	1,000,000	100,000
As at 31st March 2005 and 30th September 2005	368,605	36,861

At no time during the six months ended 30th September 2005 was there any purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's shares.

21. Share options

Share options are granted to participants for their services rendered. The exercise price of the granted options is equal to/higher than the market price of the shares on the date of the grant. The VSC Group has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	For the six months ended 30th September 2005		For the year ended 31st March 2005	
	Average exercise price per share		Average exercise price per share	
	HK$	***'000***	*HK$*	*'000*
Beginning	**1.041**	**15,450**	1.039	15,995
Lapsed	**1.343**	**(1,200)**	0.970	(545)
Ending	**1.016**	**14,250**	1.041	15,450

Out of the 14,250,000 outstanding share options (31st March 2005: 15,450,000), 10,260,000 share options (31st March 2005: 7,250,000) were exercisable as at 30th September 2005.

Share options outstanding at the end of the period have the following expiry date and exercise prices:

	Exercise price per share	**30th September 2005**	31st March 2005
	HK$	***'000***	*'000*
1st May 2013	0.980	**7,250**	7,250
6th May 2013	0.970	**5,700**	5,900
18th September 2013	1.418	**1,300**	2,300
		14,250	15,450

22. Reserves

	Share premium HK$'000 (Unaudited)	Capital redemption reserve HK$'000 (Unaudited)	Statutory reserves HK$'000 (Unaudited)	Capital reserve HK$'000 (Unaudited)	Investment revaluation reserve HK$'000 (Unaudited)	Investment properties revaluation reserve HK$'000 (Unaudited)	Cumulative foreign currency translation adjustments HK$'000 (Unaudited)	Retained earnings HK$'000 (Unaudited)	Total HK$'000 (Unaudited)
Balance as at 1st April 2005, as previously reported	313,596	77,203	8,259	58,355	(6,993)	2,069	(2,647)	206,874	656,716
Adjustments on adoption of new/revised HKFRSs *(Note 2)*	1,014	–	–	–	–	(2,069)	–	1,143	88
Balance as at 1st April 2005, as restated	314,610	77,203	8,259	58,355	(6,993)	–	(2,647)	208,017	656,804
Opening adjustment on adoption of HKASs 32 and 39	–	–	–	–	–	–	–	3,524	3,524
Profit for the period attributable to equity holders of the Company	–	–	–	–	–	–	–	21,976	21,976
Share option scheme – value of services	57	–	–	–	–	–	–	–	57
Change in fair value of available-for-sale financial assets	–	–	–	–	(5,376)	–	–	–	(5,376)
Dividends paid to equity holders of the Company	–	–	–	–	–	–	–	(8,109)	(8,109)
Translation adjustments	–	–	–	–	–	–	1,684	–	1,684
Balance as at 30th September 2005	314,667	77,203	8,259	58,355	(12,369)	–	(963)	225,408	670,560

22. Reserves (continued)

	Share premium *HK$'000* (Unaudited)	Capital redemption reserve *HK$'000* (Unaudited)	Statutory reserves *HK$'000* (Unaudited)	Capital reserve *HK$'000* (Unaudited)	Investment revaluation reserve *HK$'000* (Unaudited)	Cumulative foreign currency translation adjustments *HK$'000* (Unaudited)	Retained earnings *HK$'000* (Unaudited)	Total *HK$'000* (Unaudited)
Balance as at 1st April 2004, as previously reported	312,712	77,203	5,532	58,355	(6,097)	(2,752)	178,827	623,780
Adjustments on adoption of new/revised HKFRSs *(Note 2)*	402	–	–	–	–	–	(329)	73
Balance as at 1st April 2004, as restated	313,114	77,203	5,532	58,355	(6,097)	(2,752)	178,498	623,853
Profit for the period attributable to equity holders of the Company	–	–	–	–	–	–	23,795	23,795
Issuance of shares upon exercise of warrants	207	–	–	–	–	–	–	207
Share option scheme – value of services	306	–	–	–	–	–	–	306
Change in fair value of non-trading securities	–	–	–	–	(11,499)	–	–	(11,499)
Dividends paid to equity holders of the Company	–	–	–	–	–	–	(10,303)	(10,303)
Translation adjustments	–	–	–	–	–	24	–	24
Balance as at 30th September 2004	313,627	77,203	5,532	58,355	(17,596)	(2,728)	191,990	626,383

23. 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.

24. Commitments

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

25. Related-party transactions

Metal Logistics Company Limited and iSteelAsia (Hong Kong) Limited are wholly-owned by North Asia Strategic Holdings Limited (formerly known as iSteelAsia Holdings Limited), a company in which the VSC Group has a 6.6% equity interest as at 30th September 2005 (as at 31st March 2005: 18.9%).

Shinsho Corporation is a minority shareholder of VSC Shinsho Company Limited, a 70% owned subsidiary of the VSC Group.

The following transactions were carried out with related parties:

(a) Sales of goods and services

	For the six months ended 30th September	
	2005	2004
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Metal Logistics Company Limited		
– sales made by the VSC Group	**120,727**	264,341
– administrative service fees earned by the VSC Group	**15**	90
– interest earned by the VSC Group	**973**	1,655
iSteelAsia (Hong Kong) Limited		
– administrative services fee earned by the VSC Group	**15**	90
– rental earned by the VSC Group	**13**	81

(b) Purchases of goods and services

	For the six months ended 30th September	
	2005	2004
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Shinsho Corporation		
– purchase of goods by the VSC Group	**83,502**	43,313

25. Related-party transactions (continued)

(c) Year/Period-end balances arising from sales/purchases of goods/services

	As at 30th September 2005	As at 31st March 2005
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Receivables from a related party – Metal Logistics Company Limited (i)	**124,482**	118,843
Payables to a related party – Shinsho Corporation (ii)	**65,989**	51,762

(d) Key management compensation

	For the six months ended 30th September	
	2005	2004
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Salaries and other short-term employee benefits	**471**	940
Post-employment benefits	**12**	32
Share-based payments	**37**	39
	520	1,011

(i) The balances, arising mainly from sales of steel, was unsecured, repayable according to the VSC Group's normal credit term for trading transactions and bore interest at commercial lending rates for overdue balances.

(ii) The balances, arising mainly from purchases of steel, was unsecured, repayable according to normal credit term for trading transactions and bore interest at commercial lending rates.

26. 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.

Compared 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 impacted 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 VSC 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 as 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.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30th September 2005, the interests and short positions of the Directors and chief executives of VSC in the shares of HK$0.10 each in the capital of VSC ("Shares"), underlying shares and debentures of VSC or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which (a) were required to be notified to VSC and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or (c) were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") to be notified to VSC and the Stock Exchange, were as follows:

(i) Long positions in Shares and options of VSC

Name	**Nature of interest**	**Attributable interest to the Director**	**Number of Shares**	**Approximate percentage**	**Number of share options** ***(Note b)***	**Aggregate interest**
Mr. Andrew Cho Fai Yao	– Corporate interest held by Huge Top *(Note a)*	deemed interest (indirectly)	173,424,000	47.05%	–	173,424,000
	– Personal interest	100% (directly)	1,614,000	0.44%	–	1,614,000
			175,038,000	47.49%	–	175,038,000
Mr. Fernando Sai Ming Dong	– Personal interest	100% (directly)	342,000	0.09%	300,000	642,000
Mr. Harold Richard Kahler	– Personal interest	100% (directly)	66,000	0.02%	–	66,000

Notes:

a. As at 30th September 2005, Huge Top Industrial Ltd. ("Huge Top") holds 173,424,000 Shares. Mr. Andrew Cho Fai Yao is one of the two directors of Huge Top. Mr. Andrew Cho Fai Yao directly holds approximately 11.91% and indirectly through Perfect Capital International Corp. ("Perfect Capital") owns approximately 42.86% of the issued shares of Huge Top and is entitled to exercise more than one-third of the voting power at general meetings of Huge Top. Mr. Andrew Cho Fai Yao owns the entire issued share capital of Perfect Capital. These interests of the aforesaid Director in the Shares were corporate interests.

b. The interests of the Director in the share options of VSC are separately disclosed in the section headed "Share Option Scheme" below.

(ii) Long positions in associated corporation – Huge Top

Name	**Nature of interest**	**Attributable interest to the Director**	**Number of shares**	**Approximate percentage**
Mr. Andrew Cho Fai Yao *(Refer to Note a in (i) above)*	– Corporate interest held by Perfect Capital	deemed interest (indirectly)	36	42.86%
	– Personal interest	100% (directly)	10	11.91%
			46	54.77%
Mr. Fernando Sai Ming Dong	– Personal interest	100% (directly)	5	5.95%

Save as disclosed above, as at 30th September 2005, none of the Directors, chief executives of VSC and their associates had any personal, family, corporate or other interests or short positions in the shares, underlying shares or debentures of VSC or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to VSC and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (include interests and short positions which they are taken or deemed to have under such provisions of SFO); or (b) were required pursuant to section 352 of the SFO to be entered in the register referred to therein; or (c) were required pursuant to the Model Code to be notified to VSC and the Stock Exchange.

Apart from the foregoing, at no time during the period was VSC or any of its subsidiaries a party to any arrangements to enable the Directors or any of their spouses or children under the 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of VSC or any other body corporate, and no Directors or chief executives or their respective spouses or children under 18 years of age had been granted any right to subscribe for equity or debt securities of VSC nor exercised any such right.

PERSONS WHO HAVE INTERESTS OR SHORT POSITIONS WHICH ARE DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO

Other than interests disclosed in the section headed "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, as at 30th September 2005, according to the register of interests kept by VSC under section 336 of the SFO, the following entities have interests or short positions in the shares and underlying Shares of VSC which fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO:

Name	**Nature of interest**	**Number of Shares**	**Approximate percentage**	**Number of share options**	**Aggregate interest**
Huge Top Industrial Ltd.	Directly	173,424,000	47.05%	–	173,424,000
Ms. Miriam Che Li Yao	Corporate	173,424,000 *(Note)*	47.05%	–	173,424,000
	Personal	2,000,000	0.54%	1,000,000	3,000,000
		175,424,000	47.59%	1,000,000	176,424,000

Note: As at 30th September 2005, Huge Top held 173,424,000 Shares. Ms. Miriam Che Li Yao is one of the two directors of Huge Top while the remaining director of Huge Top is Mr. Andrew Cho Fai Yao who is the brother of Ms. Miriam Che Li Yao and therefore is deemed to be interested in these Shares through Huge Top.

Save as disclosed above, as at 30th September 2005, the Directors are not aware of any other persons (other than Directors or chief executives of VSC) who have interests or short positions in the shares, underlying shares or debentures of VSC or any associated corporations (within the meaning of Part XV of the SFO) which would fall to be disclosed to VSC under Divisions 2 and 3 of Part XV of the SFO.

SHARE OPTION SCHEME

A share option scheme has been adopted by VSC since 12th November 2001 (the "Share Option Scheme") and VSC may grant options to the participants as set out in the Share Option Scheme. The terms of the Share Option Scheme are contained in a circular sent to shareholders of VSC in October 2001. The share options outstanding under the Share Option Scheme during the period were as follows:

Name or category of participant	Date of grant	Exercise period	Exercise price per Share	Number of share options: Beginning of period '000	Number of share options: Lapsed during the period '000	Number of share options: End of period '000
Director:–						
Mr. Fernando Sai Ming Dong	19th September 2003	19th September 2005 to 18th September 2013	HK$1.418	300	–	300
Sub-total				300	–	300
Employees:–						
In aggregate	2nd May 2003	2nd May 2003 to 1st May 2013	HK$0.98	250	–	250
In aggregate	7th May 2003	7th May 2005 to 6th May 2013 *(Note 2)*	HK$0.97	5,900	(200)	5,700
In aggregate	19th September 2003	19th September 2005 to 18th September 2013	HK$1.418	2,000	(1,000)	1,000
Sub-total				8,150	(1,200)	6,950
Others:–						
In aggregate	2nd May 2003	2nd May 2003 to 1st May 2013	HK$0.98	7,000	–	7,000
Sub-total				7,000	–	7,000
Total of Share Option Scheme				15,450	(1,200)	14,250

Notes:

1. For the Share Option Scheme, the vesting period of the share options is from the date of the grant until the commencement of the exercise period.

2. The options to subscribe for Shares at a price of HK$0.97 per Share are to be exercisable in whole or in part in the following manner:–

   (i) During the period starting from 7th May 2005 to 6th May 2006, the option may be exercised up to 30% of such Shares.

   (ii) During the period starting from 7th May 2006 to 6th May 2007, the option may (to the extent not exercised in accordance with (i) above) be exercised up to 70% of such Shares.

   (iii) During the period starting from 7th May 2007 to 6th May 2013, the option may (to the extent not exercised in accordance with (i) and (ii) above) be exercised in full.

Save as disclosed above, no share options were granted, exercised, lapsed or cancelled during the period.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

SPECIFIC PERFORMANCE OBLIGATIONS ON CONTROLLING SHAREHOLDER

Reference was made to the HK$250 million term loan facility agreement dated 27th October 2003 (the "Facility Agreement") with a final maturity in October 2006. The Facility Agreement contains a requirement that Mr. Andrew Cho Fai Yao and his direct related family members (i.e. Mr. Andrew Cho Fai Yao, Ms. Miriam Che Li Yao and Mrs. Yao Lin Shiu Mei, their spouses and their children) shall continue to remain as the single largest shareholder of VSC with at least 30% shareholding of the issued share capital of VSC and Mr. Andrew Cho Fai Yao shall maintain the position of Chairman and management control of the VSC Group. The abovementioned obligations have been complied with.

CODE ON CORPORATE GOVERNANCE PRACTICES

Saved as disclosed in the “Corporate Governance” under “ REVIEW OF OPERATIONS” of this report, 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 report, 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.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

VSC has adopted the Model Code as set out in the Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by the Directors on 31st March 2004. Having made specific enquiry of all Directors, they all confirmed that they have complied with the required standard set out in the Model Code during the six months ended 30th September 2005.

On behalf of the Board
Andrew Cho Fai Yao
Chairman

Hong Kong, 20th December 2005

As at the date of this report, 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).

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