VSC万顺昌

VAN SHUNG CHONG HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 1001)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31ST MARCH 2007

The Board of Directors (the "Board") of Van Shung Chong Holdings Limited ("VSC" or the "Company") hereby announces the audited condensed consolidated financial statements of VSC and its subsidiaries (the "VSC Group") as at and for the year ended 31st March 2007, together with comparative figures, as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 31st March 2007

	Notes	**2007** *HK$'000*	2006 *HK$'000*
Revenue	3	**4,867,657**	4,574,939
Cost of sales	5	**(4,549,893)**	(4,336,273)
Gross profit		**317,764**	238,666
Other gains — net	4	**37,238**	14,223
Selling and distribution expenses	5	**(33,540)**	(30,261)
General and administrative expenses	5	**(191,608)**	(154,562)
Operating profit		**129,854**	68,066
Finance income	6	**4,982**	4,490
Finance costs	6	**(41,383)**	(45,959)
Profit before income tax		**93,453**	26,597
Income tax expense	7	**(12,534)**	(68)
Profit for the year		**80,919**	26,529
Attributable to:			
Equity holders of the Company		**70,627**	22,867
Minority interest		**10,292**	3,662
		80,919	26,529
Dividends	8	**17,693**	4,055
Earnings per share for profit attributable to the equity holders of the Company during the year	9		
— Basic		**HK19.16 cents**	HK6.20 cents
— Diluted		**HK19.16 cents**	HK6.20 cents

CONSOLIDATED BALANCE SHEET

As at 31st March 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment		**126,315**	103,198
Investment properties		**50,000**	48,000
Leasehold land and land use rights		**26,527**	22,741
Goodwill		**31,202**	6,775
Interest in an associate		**5,832**	5,832
Deferred income tax assets		**23,329**	17,193
Available-for-sale financial assets		**12,992**	13,372
Derivative financial instruments		**57,270**	—
Total non-current assets		**333,467**	217,111
Current assets			
Inventories		**587,872**	514,304
Due from customers on installation contract work		**3,935**	8,325
Trade and bill receivables	10	**769,352**	729,615
Prepayments, deposits and other receivables		**217,428**	173,202
Derivative financial instruments		**1,704**	—
Amount due from an associate		**510**	—
Pledged bank deposits		**29,850**	6,090
Cash and cash equivalents		**304,574**	198,556
Total current assets		**1,915,225**	1,630,092
Current liabilities			
Trade and bill payables	11	**301,031**	189,796
Due to customers on installation contract work		**—**	102
Amount due to an associate		**—**	9,396
Receipts in advance		**106,185**	56,695
Accrued liabilities and other payables		**40,587**	45,916
Current income tax liabilities		**16,579**	11,486
Derivative financial instruments		**—**	216
Borrowings		**683,687**	770,219
Total current liabilities		**1,148,069**	1,083,826
Net current assets		**767,156**	546,266
Total assets less current liabilities		**1,100,623**	763,377

	Notes	**2007**	2006
	Notes	***HK$'000***	*HK$'000*
Non-current liabilities			
Derivative financial instruments		**63,619**	736
Deferred income tax liabilities		**2,301**	2,382
Borrowings		**27,300**	—
Total non-current liabilities		**93,220**	3,118
Net assets		**1,007,403**	760,259
Equity			
Capital and reserves attributable to equity holders of the Company			
Share capital		**36,861**	36,861
Reserves	12	**745,734**	678,594
		782,595	715,455
Minority interest		**224,808**	44,804
Total equity		**1,007,403**	760,259

NOTES:

1 Basis of preparation

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the available-for-sale financial assets, financial assets and financial liabilities (including derivative instruments) at fair value through profit and loss and investment properties, which are carried at fair value.

The accounting policies and methods of computation used in the preparation of this consolidated financial statements are consistent with those used in the consolidated financial statements for the year ended 31st March 2006, except that the VSC Group has changed certain of its accounting policies following its adoption of revised HKFRS and Hong Kong Accounting Standards ("HKAS") which are effective for accounting periods commencing on or after 1st January 2006 and relevant to its operations.

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 The adoption of revised HKFRSs

During the year ended 31st March 2007, the VSC Group adopted HKAS 39 & HKFRS 4 (Amendments), Financial Guarantee Contracts, which are effective for accounting periods beginning on or after 1st January 2006 and relevant to its operations.

HKAS 39 and HKFRS 4 (Amendments) require issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value, and subsequently measured at the higher of (i) the unamortised balance of the related fees received and deferred, and (ii) the expenditure required to settle the commitment at the balance sheet date. There is no financial guarantee contract issued at group level. For guarantees provided by the Company for banking facilities granted to subsidiaries, the Company regards such guarantees as insurance contracts and does not recognise liabilities for financial guarantees at inception, but performs a liability adequacy test at each reporting date and recognise any deficiency in the liabilities in the income statement.

3 Revenue and segment information

(a) Revenue by nature

	2007 ***HK$'000***	2006 *HK$'000*
Processing/manufacturing of industrial products		
— Rolled flat steel products	**1,510,318**	1,102,078
— Enclosure systems	**197,516**	141,564
Trading of industrial products		
— Engineering plastic resins	**344,518**	258,551
Stockholding and trading of construction materials		
— Steel products — steel rebars, structural steel and flat steel products	**2,604,869**	2,916,604
— Sanitary wares and kitchen cabinets	**208,036**	154,333
Net rental income from investment properties	**856**	1,809
Others	**1,544**	—
	4,867,657	4,574,939

(b) Primary reporting format — business segments

The VSC Group operates predominantly in Hong Kong and Mainland China and in two business segments — (i) China Advanced Materials Processing ("CAMP"), including processing/manufacturing of industrial products such as rolled flat steel products and enclosure systems, and trading of engineering plastic resins, and (ii) Construction Materials Group ("CMG"), including stockholding and trading of construction materials such as steel products, sanitary wares and kitchen cabinets, and installation work of kitchen cabinets.

Analysis of the VSC Group's results by business segment was as follows:

			2007		
	CAMP	**CMG**	**Other operations**	**Elimination**	**Group**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
External revenue	2,052,352	2,812,905	2,400	—	4,867,657
Inter-segment revenue	—	193,877	—	(193,877)	—
	2,052,352	3,006,782	2,400	(193,877)	4,867,657
Segment results	37,359	119,019	(5,564)		150,814
Other gains/(losses) — net	36,250	1,702	(714)		37,238
Unallocated corporate expenses					(58,198)
Operating profit					129,854
Finance income					4,982
Finance costs					(41,383)
Income tax expense					(12,534)
Profit for the year					80,919

	CAMP	**CMG**	**Other operations**	**Unallocated**	**Group**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Assets	1,252,863	898,335	50,066	47,428	2,248,692
Liabilities	248,365	270,013	2,576	720,335	1,241,289
Capital expenditure	46,636	4,134	2,195	—	52,965
Depreciation and amortisation	13,906	5,748	—	1,017	20,671
Impairment of trade receivables	6,020	1,421	—	—	7,441
Write-down/(write-back) of inventories	36,245	(3,094)	—	—	33,151

	2006				
	CAMP	CMG	Other operations	Elimination	Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
External revenue	1,502,193	3,070,937	1,809	—	4,574,939
Inter-segment revenue	—	85,981	—	(85,981)	—
	1,502,193	3,156,918	1,809	(85,981)	4,574,939
Segment results	31,708	73,836	(5,650)		99,894
Other gains — net	7,260	6,544	419		14,223
Unallocated corporate expenses					(46,051)
Operating profit					68,066
Finance income					4,490
Finance costs					(45,959)
Income tax expense					(68)
Profit for the year					26,529

	CAMP	CMG	Other operations	Unallocated	Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets	877,864	868,686	50,654	49,999	1,847,203
Liabilities	246,606	65,777	2,282	772,279	1,086,944
Capital expenditure	8,106	10,243	—	—	18,349
Depreciation and amortisation	12,878	6,702	—	986	20,566
Impairment of trade receivables	2,057	1,840	15	—	3,912
Write-down of inventories	6,491	5,228	—	—	11,719
Recognition of impairment loss previously debited to revaluation reserve of an available-for-sale financial asset	—	—	14,424	—	14,424
Impairment of goodwill	1,437	—	—	—	1,437

(c) Secondary reporting format-Geographic segments

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

Analysis of the VSC Group's results by geographical segment was as follows:

		2007	
	Hong Kong	**Mainland China**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
External revenue	1,219,606	3,648,051	4,867,657
Assets	615,028	1,633,664	2,248,692
Capital expenditure	2,019	50,946	52,965

		2006	
	Hong Kong	Mainland China	Total
	HK$'000	*HK$'000*	*HK$'000*
External revenue	1,306,327	3,268,612	4,574,939
Assets	558,511	1,288,692	1,847,203
Capital expenditure	4,067	14,282	18,349

4 Other gains — net

	2007	2006
	HK$'000	*HK$'000*
(Loss)/gain on disposal of a subsidiary	**(3,430)**	4,740
Loss on disposal of certain interest in a subsidiary	—	(198)
Gain on disposal of certain interest in a subsidiary	**7,020**	607
Gain on deemed disposal of certain interest in a subsidiary	**26,024**	—
Fair value gains on investment properties	**2,000**	11,188
Net fair value gains/(losses) on forward foreign exchange contracts	**2,656**	(952)
Fair value loss on an interest rate instrument	**(7,592)**	—
Net fair value gain on call/put options arising from deemed disposal	**7,211**	—
Impairment of goodwill	—	(1,437)
Impairment loss/recognition of impairment loss previously debited to revaluation reserve of an available-for-sale financial asset	**(1,473)**	(14,424)
Gain/(loss) on disposal of an available-for-sale financial asset	**336**	(1,560)
Dividend income from available-for-sale financial assets		
— listed	**22**	14
— unlisted	**1,923**	1,589
Service income	—	1,087
Exchange gain — net	**2,541**	7,867
Others	—	5,702
	37,238	14,223

5 Expenses by nature

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

	2007	2006
	HK$'000	*HK$'000*
Raw materials consumed and finished goods sold	**4,449,055**	4,270,793
Amortisation of leasehold land and land use rights	**466**	660
Depreciation of property, plant and equipment	**20,205**	19,906
Loss on disposals of property, plant and equipment	**1,044**	32
Employment costs	**113,066**	86,514
Operating lease rental in respect of		
— land and buildings	**11,181**	10,038
— plant and machinery and motor vehicles	**3,423**	3,684
Impairment of trade receivables	**7,441**	3,912
Impairment of other receivables	**5,752**	—
Write-down of inventories	**33,151**	11,719
Auditor's remuneration	**1,700**	1,225
Others	**128,557**	112,613
Total cost of sales, selling and distribution expenses and general and administrative expenses	**4,775,041**	4,521,096

6 Finance income and costs

	2007	2006
	HK$'000	*HK$'000*
Finance income		
Interest income on short-term bank deposits	**4,982**	4,490
Finance costs		
Bank borrowings wholly repayable within five years	**(40,864)**	(45,363)
Other loans wholly repayable within five years	**(519)**	(596)
	(41,383)	(45,959)
Net finance costs	**(36,401)**	(41,469)

7 Income tax expense

The amount of income tax charged to the consolidated income statement represents:

	2007	2006
	HK$'000	*HK$'000*
Current income taxation		
— Hong Kong profits tax	**15,298**	586
— Mainland China enterprise income tax	**4,123**	1,694
— Macau profits tax	**105**	—
Deferred income tax	**(6,217)**	(2,474)
(Over)/under provision in prior years	**(775)**	262
	12,534	68

8 Dividends

	2007	2006
	HK$'000	*HK$'000*
Interim dividend of HK2.2 cents (2006: Nil) per ordinary share	**8,109**	—
Proposed final dividend of HK2.6 cents (2006: HK1.1 cents) per ordinary share	**9,584**	4,055
	17,693	4,055

A final dividend for the year ended 31st March 2007 of HK2.6 cents per ordinary share, totalling HK$9,584,000 (2006: HK1.1 cents per ordinary share, totalling HK$4,055,000), is recommended by the Directors for approval at the forthcoming Annual General Meeting of the Company. This proposed dividend has not been dealt with as dividend payable as at 31st March 2007.

9 Earnings Per Share

(a) 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 year.

	2007	2006
Profit attributable to equity holders of the Company *(HK$'000)*	**70,627**	22,867
Weighted average number of ordinary shares in issue *('000)*	**368,605**	368,605
Basic earnings per share *(HK cents)*	**19.16**	6.20

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company's dilutive potential ordinary shares is 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.

	2007	2006
Profit attributable to equity holders of the Company and used to determine diluted earnings per share *(HK$'000)*	**70,627**	22,867
Weighted-average number of ordinary shares in issue *('000)*	**368,605**	368,605
Adjustments for share options *('000)*	**58**	—
Weighted-averaged number of ordinary shares for diluted earnings per share *('000)*	**368,663**	368,605
Diluted earnings per share *(HK cents)*	**19.16**	6.20

10 Trade and bill receivables

Sales are either covered by (i) letters of credit with bill payable at sight or (ii) on open account with credit terms of 15 to 90 days.

Ageing analysis of trade and bill receivables was as follows:

	2007	2006
	HK$'000	*HK$'000*
0 to 60 days	**558,971**	472,646
61 to 120 days	**161,031**	175,263
121 to 180 days	**13,837**	42,741
181 to 365 days	**23,649**	19,631
Over 365 days	**31,606**	34,439
	789,094	744,720
Less: Provision for impairment of receivables	**(19,742)**	(15,105)
	769,352	729,615

11 Trade and bill payables

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

Ageing analysis of trade and bill payables was as follows:

	2007	2006
	HK\$'000	*HK\$'000*
0 to 60 days	**228,077**	134,022
61 to 120 days	**42,860**	33,298
121 to 180 days	**21,412**	19,063
181 to 365 days	**3,350**	438
Over 365 days	**5,332**	2,975
	301,031	189,796

12 Reserves

	Share premium	**Share option reserve**	**Capital redemption reserve**	**Statutory reserves**	**Capital reserve**	**Investment revaluation reserve**	**Cumulative foreign currency translation adjustments**	**Retained earnings**	**Total**
	HK\$'000	*HK\$'000*	*HK\$'000*	*HK\$'000*	*HK\$'000*	*HK\$'000*	*HK\$'000*	*HK\$'000*	*HK\$'000*
At 1st April 2006	313,596	1,071	77,203	11,126	58,355	250	(608)	217,601	678,594
Profit for the year	—	—	—	—	—	—	—	70,627	70,627
Transfer from retained earnings	—	—	—	1,467	—	—	—	(1,467)	—
Share option scheme — value of services	—	976	—	—	—	—	—	—	976
Change in fair value of available-for-sale financial assets	—	—	—	—	—	1,366	—	—	1,366
Dividends paid to equity holders of the Company	—	—	—	—	—	—	—	(12,164)	(12,164)
Currency translation differences	—	—	—	—	—	—	6,335	—	6,335
At 31st March 2007	**313,596**	**2,047**	**77,203**	**12,593**	**58,355**	**1,616**	**5,727**	**274,597**	**745,734**

Representing:	
Proposed dividend	9,584
Others	265,013
	274,597

	Share premium HK$'000	Share option reserve HK$'000	Capital redemption reserve HK$'000	Statutory reserves HK$'000	Capital reserve HK$'000	Investment revaluation reserve HK$'000	Cumulative foreign currency translation adjustments HK$'000	Retained earnings HK$'000	Total HK$'000
At 1st April 2005	313,596	1,014	77,203	8,259	58,355	(6,993)	(2,647)	205,710	654,497
Profit for the year	—	—	—	—	—	—	—	22,867	22,867
Transfer from retained earnings	—	—	—	2,867	—	—	—	(2,867)	—
Share option scheme — value of services	—	57	—	—	—	—	—	—	57
Change in fair value of available-for-sale financial assets	—	—	—	—	—	(7,181)	—	—	(7,181)
Investment revaluation reserve transferred to income statement upon recognition of impairment loss of an available-for-sale financial asset	—	—	—	—	—	14,424	—	—	14,424
Dividends paid to equity holders of the Company	—	—	—	—	—	—	—	(8,109)	(8,109)
Currency translation differences	—	—	—	—	—	—	2,039	—	2,039
At 31st March 2006	313,596	1,071	77,203	11,126	58,355	250	(608)	217,601	678,594
Representing:									
Proposed dividend								4,055	
Others								213,546	
								217,601	

13 Guarantees

	2007 ***HK$'000***	2006 *HK$'000*
Performance bonds	**1,652**	1,612

14 Commitments

(a) Capital commitments

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

	2007	2006
	HK$'000	*HK$'000*
Contracted but not provided for	**3,756**	9,742

(b) Commitments under operating leases

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

	2007	2006
	HK$'000	*HK$'000*
Not later than one year	**6,775**	2,373
Later than one year and not later than five years	**6,926**	515
Later than five years	**2,186**	—
	15,887	2,888

(c) Commitments under forward foreign currency contracts

As at 31st March 2007, the VSC Group had outstanding forward foreign currency contracts to purchase approximately US$44,600,000 (2006: US$97,400,000) for approximately HK$344,239,000 (2006: HK$752,602,000), for the purpose of hedging against the VSC Group's commitments arising from its trading activities.

15 Event after the balance sheet date

On 27th June 2007, Fit Team Holdings Limited, a company of which 50% of its equity interest is held by the VSC Group, formed a joint venture, China Able Limited, in equal shares with Nanyang Industrial (China) Limited, an independent third-party company incorporated in Hong Kong, and Marvel Champ Investments Limited, an independent third-party company incorporated in the British Virgin Islands. China Able Limited will, through its wholly-owned subsidiary, acquire a property in Shanghai at a consideration of RMB420 million and hold the property for investment purpose.

RESULTS

Revenue for the financial year ended 31st March 2007 ("FY2007") amounted to HK$4,868 million, representing an increase of 6% over the financial year ended 31st March 2006 ("FY2006"). Overall gross profit increased by 33% and gross margin increased by 1.3 percentage point. The improvement is mainly from the Hong Kong steel rebars stockholding business of CMG. Coil centres recovered from last year's trough position and had a much improved profit margin in FY2007.

Selling and distribution expenses increased by 11% or approximately HK$3 million. The increase was in line with the growth in revenue. General and administrative expenses increased by 24% or approximately HK$37 million mainly due to increased employment costs as a result of larger workforce to cope with the inauguration of Kunshan Coil Center's operations and the VSC Group's expanding businesses, and the upsurge in average salary along with relative social benefit contribution in Hong Kong and PRC labour market. During the year, the management has adopted a more conservative approach in making provision for doubtful debts. As a result, impairment on trade and other receivables increased by HK$9 million as compared to that of FY2006.

Profit attributable to equity holders increased by 209% to HK$71 million. Basic and diluted earnings per share increased by 209% to HK19.16 cents.

The Board recommended to declare a final dividend of HK2.6 cents per share. Dividend payout (total dividends divided by profit attributable to equity holders X 100%) for the year is around 25% (FY2006: 18%). VSC is actively seeking investment opportunities and the management will through reinvestments of capital to maximise the VSC Group's shareholders' value in the medium to longer term.

CHARGES ON ASSETS

As at 31st March 2007, the VSC Group had certain charges on assets which included (i) bank deposits of approximately HK$16 million pledged for RMB bank facilities; (ii) inventories of approximately HK$63 million pledged for bank loans; (iii) land and building of approximately HK$25 million pledged for RMB bank loans; and (iv) inventories held under short-term trust receipts bank loan arrangements in Hong Kong.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

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

As at 31st March 2007, about 63.7% of the VSC Group's interest-bearing borrowings were denominated in HK dollar, 20.4% in RMB, and 15.9% in US dollar. Forward foreign exchange contracts were entered into when suitable opportunities arise and when considered appropriate, to hedge against major non-HK dollar currency exposures. As at 31st March 2007, the VSC Group had forward foreign currency contracts to hedge principal repayment of future US dollars debts under letter of credit in the amount of approximately HK$344 million.

All of the VSC Group's borrowings were subject to floating rates basis. The use of financial derivative instruments was strictly controlled and solely for management of the interest rate and foreign currency exchange rate exposures in connection with the borrowings. It was the VSC Group's policy not to enter into derivative transactions for speculative purposes.

MANAGEMENT DISCUSSION AND ANALYSIS

The VSC Group experienced a healthy enhancement in its performance during the year ended 31st March 2007. As a result of effective execution of its business, financing and investment strategies, the VSC Group reported favourable FY2007 full year results.

The upsurge in revenue was mainly attributable to the inauguration of the VSC Group's Kunshan Coil Centre, Plastics distribution operations and Building Products, which served to lift the VSC Group's overall growth in business volume. Strong performance of the VSC Group's steel distribution and widened profit margin from these operations led to an improvement in full year net profit. However, compared with last year, provision for doubtful debts increased due partly to enlarged sales volume, as well as a more conservative treatment of receivables from certain financially affected customers. There were also one off higher provisions for inventory consisting mostly from VJY enclosure system manufacturing in order to better position our inventory. We have discontinued certain slowing moving or obsolete product range in order to expand our business into new product, new customers and new market, particularly on those key local and global customers.

Following the commencement of the cooperation with Ryerson Inc. ("Ryerson") in November 2006, we managed to further leverage our unique position in coil processing and services in Mainland China, and to extend our reach to the international market. We will further cement our relationship with long-term customers through our commitment to total satisfaction and unchallenged product quality. Our seamless collaboration with supplier and investment in human resources and information systems will further enhance our supply chain efficiency.

Operation Efficiency

The VSC Group's operating expenses during the year increased in line with its sales growth, new business establishments and increase in salary related expenses. The increase in salary related expenses was a result of a larger workforce to cope with the inauguration of Kunshan Coil Center's operations and the VSC Group's expanding businesses, and in accordance with the VSC Group's incentive programme to retain caliber people and China's new minimum wage requirement. However, we managed to strengthen our cash flow through effective tightening of control measure and application of monitoring systems. The VSC Group's operation efficiency is reflected in the improvement in various statistic and financial indicators.

The Days Sales Outstanding ("DSO"; average trade and bill receivables divided by revenue X 365 days) and inventory turnover days (average inventories divided by cost of sales X 365 days) had been shortened to 56 days and 44 days respectively. Such improvement resulted in positive cash flow from operation for the VSC Group to expand business while controlling the level of borrowings. The subscription price from Ryerson has improved the working capital efficiency and strengthened the cash position. The VSC Group has significantly strengthened its financial position with its interest bearing loans reduced by HK$59 million to HK$711 million. Its net interest expense reduced by 12% to HK$36 million, with average interest rate remaining at the same level of last year, due to better current asset management. The VSC Group's gearing ratio (interest bearing loans minus cash and cash equivalents / capital and reserves attributable to equity holders) dropped from the past year's 0.80 to 0.52 at book close.

The VSC Group's core corporate strategies for FY2007 are summarised as follows:

1) To execute the strategies and business plan of VSC-Ryerson China Limited ("VSC-Ryerson China")

The cooperation with Ryerson on VSC-Ryerson China commenced in November 2006, with VSC indirectly holding 60% and Ryerson Pan-Pacific LLC ("Ryerson LLC") holding 40%. Ryerson LLC is a wholly-owned subsidiary of Ryerson which is one of the North America's leading distributors and processors of metals with a network of service centres across the United States and in Canada, Mexico and India. The goals of VSC-Ryerson China are as follows: (i) VSC-Ryerson China is able to capitalise on the expertise, customer base and technology and know how of Ryerson to improve its competitive position in the vast PRC market; (ii) the subscription price paid by Ryerson LLC will provide VSC-Ryerson China with additional funds for its future development; and (iii) the VSC Group will be allowed to realise its investment in VSC-Ryerson China and it subsidiaries. A special task force is being formed in the headquarter of VSC-Ryerson China to lead the execution of business strategies and drive performance.

2) To increase customer loyalty through key account management, quality products and services

Substantial efforts were made to improve customer satisfaction and key account management. We trained our sales team to focus on addressing customer's needs and wants, understanding our customers' business plans including the requirements of their downstream customers. Members of our senior management team continued to pay programmed visits to major customers, keep up with latest market trends and seek customer feedback to improve service quality. Annual business plan was designed to include selling strategies and account plan of key customers. Monthly review of sales performance and variance analysis were in place to redirect the forecast, while weekly sales meeting between sales team and senior management were held to assess the prevailing market situation, with action plans to address critical strategic moves.

3) To enhance distribution network and supply chain

We continued to ally with steel mills in the PRC and other Asian countries to secure continuous and timely supply of a full range of products including hot rolled coils, cold rolled coils, galvanized steel, pre-painted color steel sheets, aluminium & zinc coated steel, aluminum coated steel, stainless steel, silicon steel, reinforcing bars, steel H-piles and steel sheet piles, etc. Our alliance with steel mills worldwide together with our experience and expertise in distribution, value-added processing, supply chain management and total solution services continued to make us preferred vendor of our domestic as well as global customers. In FY2007, we continued to execute business expansion strategies including enhancement of our distribution network, realignment of our resources and organization structure. Our flat product steel distribution in Guangzhou CMG Division was successfully amalgamated with CAMP to support its operations by strengthening the source of supply and inventory quality, and through adding to the range of materials for processing with those previously traded by CMG. Our long product steel distribution in Hong Kong, Shanghai and Shenzhen continued to focus on our key accounts, leveraging our experience in supply chain and technical services.

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

VSC Group's CAMP operations comprise three business units, namely, 1) coil centre operations, under VSC-Ryerson China which provides rolled steel processing services to finished products/ OEM manufacturers of white goods, electrical appliances, computers and automobile parts; 2) manufacturing of customised enclosure systems which focuses on a variety of precision metal processing and assembly services, mainly for the telecommunications industry; 3) distribution of engineering plastic resins to industrial manufacturers of household appliances, audio/video equipments, telecommunications applications and computers in Hong Kong and the PRC.

Since the partnership with Ryerson only came into effect in November last year, and its contribution, both in efficiency and actual dollars terms, is yet to be reflected in our accounts. However, during the last five months of the year under review, VSC-Ryerson China had already begun to provide new business leads and introduced international account management and internal control systems to the operations. We are optimistic with the long-term contribution from VSC-Ryerson China on VSC Group's ongoing development.

In FY2007, overall CAMP's revenue was HK$2,052 million increased by 37% as compared with last year's HK$1,502 million. Revenue growth was a result of growth in VJY and Plastics along with our new Kunshan Coil Centre and amalgamating of Guangzhou flat product steel distribution into CAMP. Segment result was approximately HK$37 million as compared with HK$32 million last year. Detail discussion of each business unit is as follows:

1. Coil Centers — Joining hands with a world leader

In July 2006, the Kunshan Coil Centre commenced production. The VSC Group's coil centre operations thus expand from the main processing facilities in Dongguan, Tianjin and Guangzhou to Kunshan. The VSC Group also has a 14% minority interest in a joint venture company in Nansha. In November 2006, Ryerson LLC subscribed for 40% stake in the enlarged share capital of VSC-Ryerson China which holds the interest of all the coil centres, including Nansha and VSC indirectly holds the remaining 60%. After the forming of the partnership, our Guangzhou flat product steel distribution was amalgamated into VSC-Ryerson China. **Guangzhou flat product steel distribution** reported revenue of HK$398 million and gross profit of HK$10 million. Bridging between steel mills and finished products/ OEM manufacturers, a coil centre acts as an essential intermediary in the steel consumption value chain. We deliver to customers through just-in-time (JIT) delivery and reliable supply chain management with quality assurance and a flexible supply of product range, leading to reduction in scrap and materials handling costs and savings in investment of machinery and factory space. To enable our value proposition to our customers, the coil centres have to maintain a certain level of inventory and offer credits to trustworthy customers.

The **Dongguan coil centre (DGCC)** is VSC-Ryerson China's leading coil centre with 12 years of operations. Located in Humen, Dongguan, DGCC focuses on serving many Hong Kong and Taiwan based OEM manufacturers of electrical appliances (e.g. DVD, LCD panel) and computers (e.g. notebook, printer) around the nearby Pearl River Delta regions. Revenue for FY2007 was approximately HK$415 million as compared with HK$492 million last year; shipped volume for the year was 63,000 metric tons as compared with 73,000 metric tons last year. During the year, the price of high-end rolled flat steel products continued to decline, which combined with severe competitions led to decrease in both volume and revenue. Despite a decreased revenue, we managed to improve the gross margin through increasing customer satisfaction and a more effective supply chain. In FY2007, gross profit was HK$38 million as compared with HK$21 million in FY2006. Gross margin in FY2007 improved to 9%, as compared with 4% last year. Operating expenses as well as selling and general expenses remained at a similar level of last year.

The **Tianjin coil centre (TJCC)** had significantly turned around their business performance. Revenue for FY2007 was HK$321 million as compared with HK$247 million last year, while volume shipped during the year was 52,000 metric tons, representing a 33% increase from 39,000 metric tons last year. Gross profit for FY2007 was HK$24 million, which represented an increase of eight times from last year's HK$3 million. The remarkable improvement was attributable to the new management in TJCC shifting its focus on customer satisfaction, inventory management and cost control. Selling and general expenses were similar to last year's, bad debt provision increased on last year owing to the fact that a couple of customers suffered from financial difficulties.

VSC-Ryerson China continues to indirectly hold 70% equity shares in the **Guangzhou coil centre (GZCC)**. Situated in Huangpu, Guangzhou, GZCC provides services to the manufacturers of auto parts, computers, office and home appliances, etc in the Pearl River Delta regions. Shinsho Corporation, the core trading arm of Kobe Steel Group, continued to provide strong support in ensuring a stable and high quality supply of steel as well as developing a strong customer portfolio of established Japanese clientele in the automobile and home appliance sectors. Revenue for the FY2007 was approximately HK$306 million as compared with HK$363 million last year; volume shipped during the year was 44,000 metric tons, representing a 14% decrease from 51,000 metric tons last year as a result of intensified competition. Gross profit for FY2007 was HK$21 million, a drop of 5% when compared with HK$22 million last year.

The VSC-Ryerson China's indirect 14% investment in the **Baosteel Jingchang joint venture** in Nansha reported a net profit of approximately RMB17 million as compared with last year's RMB14 million. Dividends during the year totalled approximately RMB1.9 million as compared with last year's RMB1.7 million. In FY2007, volume shipped was 130,000 metric tons, of which 90,000 tons were direct sales and 40,000 tons were toll processing. This joint venture has a reputable industry position for offering highly competitive prices and quality service.

Kunshan Coil Centre (KSCC), a wholly-owned subsidiary located in Kunshan, Jiangsu Province of China, was successfully incorporated in April 2006. This coil centre aims to serve the surging demand from our customers in the Yangtze River Delta regions. The newly-constructed factory has an annual capacity of 60,000 metric tons for the first phase. KSCC started its business by offering toll processing services until the factory commenced trial run in July 2006 and was fully equipped in December 2006. In FY2007, KSCC shipped 18,000 tons, including 5,000 tons of toll processing. Revenue for FY2007 was HK$70 million with a gross profit of approximately HK$5 million. The second phase development program for metal fabrication is underway and is expected to complete by the end of 2007.

2. Enclosure Systems Manufacturing

The **VJY enclosure systems manufacturing (VJY)** in Shenzhen provides comprehensive steel processing services and solution to customer including punching, bending, stamping, coating, assembly, technical design and quality control. Its main focus is on the high growth telecommunications industry in Southern China and it continues to be the vendor of choices with top customers like Huawei and Zhongxing. Revenue for FY2007 was HK$198 million, compared to HK$142 million last year. To strengthen its operation efficiency and to cope with its strategies to expand business with key local and global customers, a new management with extensive international exposure has been put in place. VJY has also beefed up its internal control through a thorough review of its go-to-market strategies, supply chain management, and outsourcing procedures, as well as the introduction of a new ERP system and re-engineering of its workflow. Under the new leadership, we are confident that VJY will be back on track and will continue to improve its market penetration, by leveraging its technical manufacturing capability and global account management skill introduced by VSC-Ryerson partnership.

3. Plastics Distribution

For the year under review, the price of crude oil remained at high levels, causing the price of plastics resin to stay at high levels similar to those of the year before. To sustain growth in this market with profitable return to the VSC Group, our strategies were to penetrate new markets and to increase our volume. In FY2007, revenue was HK$345 million, representing a 33% increase from HK$259 million of the previous year, and the actual tonnage sold was also increased by 31% to 21,000 tons as compared with last year's 16,000 tons. The growth in revenue and tonnage was achieved by keeping our existing customers while securing new customers from the consumer electronics & electrical market segment. For FY2007, the segment profit was HK$13 million as compared with HK$11 million last year. We continued to promote engineering plastic resins from a wide range of suppliers including Samsung Total, Samsung Cheil, GE Plastics and UMG. Our team offered technical assistance to customers on new products development and coordinated with our suppliers to ensure steady supply and delivery of quality products. In FY2007, our sales teams in Shenzhen and Guangzhou supported customers in the Pearl River Delta region, while the sales team in Shanghai served the Eastern China market. Our team will continue to focus on the markets with huge demand for high quality imported resins, particularly in the home appliance and electrical and electronic markets.

(B) CONSTRUCTION MATERIALS GROUP ("CMG")

In FY2007, we continued to pursue our objective of building a steel distribution network to provide products and high value-added solutions to target customers across the PRC and Hong Kong. The businesses of CMG operations include distribution of steel and building products primarily to large reputable developers and contractors for construction work in Hong Kong, Macau and other major cities in the PRC (including Shenzhen, Guangzhou and Shanghai). Revenue of CMG for the year was HK$2,813 million, compared with HK$3,071 million last year. The overall segment profit for the year was HK$119 million as compared to HK$74 million of last year. In FY2007, CMG accounted for approximately 58% of the VSC Group's total revenue as compared with last year's 67%.

1. Steel Distribution

The CMG operations in steel distribution comprise of stockholding business of rebars, structural steel and engineering products in Hong Kong; and steel distribution in Mainland China. VSC has a 66.7% joint venture – Shanghai Bao Shun Chang ("BSC"), which engages in the distribution of domestic steel products in Eastern China.

Hong Kong Steel Distribution

During the year, this department implemented a series of enhancement strategies and actions to minimise the risk of fluctuations in prices with customers and suppliers, to avoid entering into fixed price sales contracts with a term of over two years, to reduce operating cost and to improve operation efficiency. As a result, this department continued to achieve encouraging operating profit in FY2007. Despite a 7% decrease in revenue to HK$1,151 million in the reporting year, this department achieved a segment profit of HK$107 million as compared to HK$95 million last year. The improvement strategies and cost measures were very successful. Sales revenue from distribution of steel in Hong Kong contributed 41% to the total CMG steel distribution revenue for the year. Currently, the department's total contracts-on-hand is HK$683 million, extending to year 2008 and beyond. Major projects worth highlighting are Dream City in Tseung Kwan O, Celestial Heights in Homantin, Shatin New Town Stage II Road Works, Foundation Works at Hoi Ting Road, Property Development at Tai Wai Maintenance Centre, Ocean Park Redevelopment, and City of Dreams in Macau. Looking forward to the year 2008, we can expect some challenges as the export tax rebate had been cancelled by the PRC Government in April 2007 coupled with 10% export tax levied in May 2007. As we source a significant amount of rebars from PRC mills, the effect of these policies with no doubt affect our profit margin. But having said that, we expect the impact to be short term as the VSC Group has, through prior experiences, a policy of not entering into long term fixed price contracts, coupled with the new contracts entered into by the VSC Group would have incorporated these factors already. The operating performance of this division is expected to continue in the coming year by exploring new market in other countries.

China Steel Distribution

With the continued implementation of China's macro-economic policies to curb excessive investments in several overheated industries including steel and the real estate sector, the China Steel Distribution Department continued to operate under a difficult environment. Revenue for the year was HK$1,454 million as compared with HK$1,685 million last year, and a profit of HK$3 million was reported as compared with a loss of HK$22 million of last year. The results of the China Steel Distribution Department included BSC, our 66.7% joint venture company. In FY2007, BSC reported an increase of 4% in revenue to HK$999 million as compared with HK$964 million last year, and a net profit after minority interests of HK$0.8 million. During the year, our strategic venture alliance MetalChina continued to progress as scheduled. Our goal is to provide a virtual chain market linking procurement services to overseas buyers so that China-made metal products could be exported to satisfy global demand. The strategic intent of such specialised services is to develop VSC Group's domestic sourcing capability and to lower its capital requirements and risks associated with inventory. It further provides cross-selling opportunity for processing activities for the CAMP operations. In FY2007, MetalChina was in touch with a number of global customers, and the progress of engagement proceeded according to each project plan. CMG management will continue to support MetalChina in resources realignment and project management to assure solid result in the coming year.

2. Building Products

In FY2007, Building Products Department reported a revenue of HK$208 million and a segment profit of HK$9 million as compared with HK$154 million and HK$1 million of the previous year. This department consists of four business units, namely, Hong Kong Building Products, Shenzhen Building Products, Shanghai Leisure Plus and Vanyee Macau, which all engaged in distributing sanitary wares of TOTO, Hansgrohe, and Rover conglomerate marble.

During the year, **Hong Kong Building Products** continued to operate a retail showroom in Wanchai and engage in projects sales to contractors. Revenue for FY2007 dropped from HK$73 million last year to HK$68 million, mainly due to the closure of the kitchen cabinets installation business during the year. Segment profit was HK$5 million for the year. Hong Kong Building Products currently has contracts-on-hand worth around HK$14.5 million. Major outstanding projects-on-hand include the supply of bathroom sanitary wares and tiles for One Island East, Kowloon Station International Commerce Centre, Hong Kong Community College, Landmark North Office Tower, Langham Hotel renovation, Yu To Sang Building renovation, Luk Yeung Galleria renovation, flooring renovation in Pacific Place and Renovation at Tsim Sha Tsui Centre & Empire Centre. **Shanghai Leisure Plus** reported a revenue of HK$82 million and profit of HK$2 million for FY2007, while **Shenzhen Building Products** realised a revenue of HK$34 million and returned to profitability with a profit of HK$0.5 million. The opening of a brand new retail shop in Shenzhen in June 2007 is expected to contribute steady revenue and profit to VSC. **Vanyee Macau** is a 82% owned joint venture, Vanyee Building Products (Macau) Company Limited, which started operation in June 2006 with focus on the booming hotel and casino and residential development business. Vanyee Macau's revenue for FY2007 was HK$24 million, with a profit of HK$2 million.

(C) OTHER INVESTMENT

During the year, the VSC Group continued to maintain a 6.61% investment with direct holding of equity shares in North Asia Strategic Holdings Limited ("NAS"), a company listed in the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since April 2000. In FY2007, NAS and its subsidiaries (together the "NAS Group") returned to profitability. Revenue significantly improved by 55% from last year to approximately HK$559 million, and a profit attributable to equity holders of approximately HK$67 million was reported.

To enhance the VSC Group's presence in the PRC and also to accommodate its rapid growth within the PRC, it is the intention of the VSC Group to acquire a more permanent premise to house the VSC Group's operational headquarter in the PRC. As of the date of this announcement, the VSC Group has acquired a one-sixth(1/6) shareholding in a company to own a brand new office building in Shanghai. The VSC Group's intended investment commitment in this project as of this point is to be approximately RMB75 million.

EMPLOYEE AND REMUNERATION POLICIES

In March 2007, the VSC Group employed about 1,575 staff members. Salaries and annual bonuses are determined according to positions and performance of the employees. The VSC Group provides on-the-job training and training subsidy to its employees in addition to retirement benefit schemes and medical insurance. Total staff costs including contribution to retirement benefit schemes incurred during FY2007 amounted to approximately HK$113 million. During the year under review, options to subscribe 8,800,000 shares have been offered and granted to its employees under the new share option scheme adopted since 12th November 2001.

DIVIDENDS

During the year, an interim cash dividend of HK2.2 cents per ordinary share was declared and paid up by 15th February 2007. The Directors have resolved to recommend at the forthcoming Annual General Meeting the payment of a final dividend of HK2.6 cents per ordinary share in respect of the year ended 31st March 2007 payable to shareholders whose names appear on the Register of Members of VSC at the close of business on 31st August 2007. Subject to the approval of shareholders at the forthcoming Annual General Meeting, the final dividends warrants are expected to be despatched on or before 28th September 2007.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of VSC will be closed from 29th August 2007 to 31st August 2007 (both dates inclusive) during which period no transfers of shares will be registered. In order to qualify for the final dividend, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with VSC's Registrars in Hong Kong, Computershare Hong Kong Investor Services Limited by not later than 4:00 p.m. (Hong Kong SAR time) on 28th August 2007.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither VSC nor any of its subsidiaries has purchased, sold or redeemed any of shares of VSC during the year ended 31st March 2007.

AUDIT COMMITTEE

The Audit Committee has been set up since December 1998 and now consists of four independent non-executive Directors. The VSC Group's financial statements for the year ended 31st March 2007 now reported on have been reviewed by the Audit Committee.

CODE ON CORPORATE GOVERNANCE PRACTICES

VSC has applied the principles and complied with all the applicable code provisions of the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") for the year ended 31st March 2007, except for the deviations herein below mentioned:

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

2. The CG Code provisions A.4.1 and A.4.2 stipulates that (1) the non-executive directors should be appointed for a specific term, subject to re-election and (2) all directors, 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 (except for Mr. Harold Richard Kahler) are not appointed for a specific term. Before the amendment of the Bye-Laws of VSC at the annual general meeting of VSC held on 31st August 2006 ("2006 AGM"), the chairman and the managing director of VSC are not subject to retirement by rotation or be taken into account in determining the number of Directors to retire in each year. To comply with the CG Code provision A.4.2, a resolution has been approved by the shareholders of VSC in the 2006 AGM to amend the Bye-Laws of VSC so that every Director is required to retire by rotation at least once every three years.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement is published on the website of VSC (www.vschk.com) and the Stock Exchange (www.hkex.com.hk). The annual report for FY2007 of VSC containing all information required by the Listing Rules will be despatched to shareholders and available on the same websites in due course.

On behalf of the Board
Andrew Cho Fai Yao
Chairman

Hong Kong, 19th July 2007

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

http://www.vschk.com