

iSteelAsia Holdings Limited

亞鋼集團有限公司*



2004/05 第一季度
業績報告
1st Quarterly Report

FIRST QUARTERLY REPORT FOR THE THREE MONTHS ENDED 30TH JUNE 2004

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (“THE STOCK EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM. The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at www.hkgem.com in order to obtain up-to-date information on GEM-listed issuers.

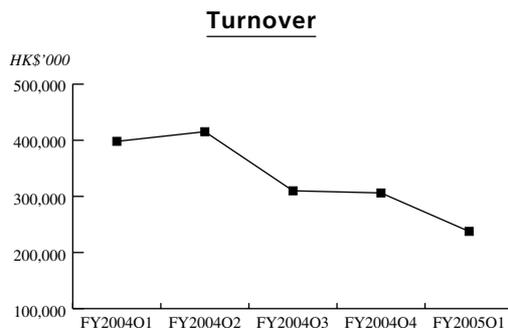
The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors of iSteelAsia Holdings Limited (“the Directors”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (“the GEM Listing Rules”) for the purpose of giving information with regard to iSteelAsia Holdings Limited. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

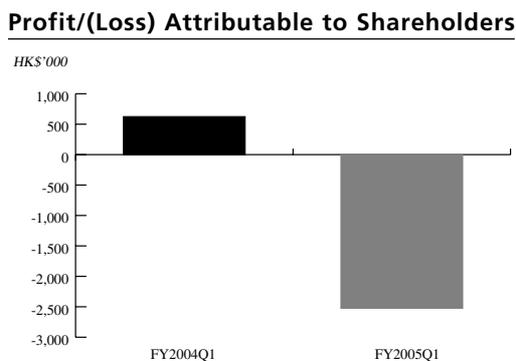
Turnover

For the three months ended 30th June 2004, the iSteelAsia Group recorded a turnover of approximately HK\$238 million, representing a 40% decrease against that for the corresponding period last year. The reasons are (1) turnover from the construction steel products had been much affected by the austerity program implemented by the Central Government in the PRC to cool down the overheated real estate industry and (2) efforts were implemented in the products selection and deployment of resources to products with greater return to shareholders.



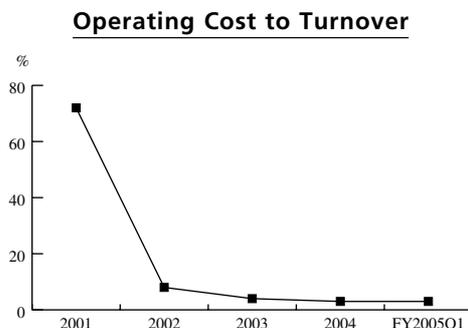
Profit/(loss) attributable to shareholders

The macro situation of the PRC Government's austerity program caused a short-term divestment of inventories by most domestic PRC distributors, resulting in a sharp price correction domestically in the month of May and June. Coupled with an ever rising steel price in the rest of the world, the Group experienced a significant short-term adverse impact on its performance. A net loss of approximately HK\$2.5 million for the three months ended 30th June 2004 was recorded, as compared to a net profit of approximately HK\$0.6 million for the same period last year.



Operating cost

Operating Cost to turnover ratio had decreased from 72.1% in early 2001 and stabilised at around 2%-3% in the current few years.



RESULTS

The following is the unaudited consolidated results of iSteelAsia Holdings Limited (the "Company" or "iSteelAsia") and its subsidiaries (collectively the "Group" or "iSteelAsia Group") for the three months ended 30th June 2004, together with the comparative unaudited figures for the corresponding period in 2003, as follows:

| | | For the three months ended 30th June | |
|--|-------------|---|-----------------|
| | | 2004 | 2003 |
| | <i>Note</i> | HK\$'000 | <i>HK\$'000</i> |
| Turnover | 2 | | |
| — Sales | | 236,288 | 395,535 |
| — Commission | | 1,299 | 2,500 |
| Cost of sales | | (232,475) | (387,603) |
| Gross profit | | 5,112 | 10,432 |
| Other revenue | | 553 | 385 |
| Selling and distribution expenses | | (2,274) | (1,489) |
| General and administrative expenses | | (4,603) | (7,164) |
| Operating (loss)/profit | | (1,212) | 2,164 |
| Finance costs | | (1,340) | (2,028) |
| (Loss)/Profit before taxation | | (2,552) | 136 |
| Taxation | 3 | 43 | (15) |
| (Loss)/Profit after taxation but before minority interests | | (2,509) | 121 |
| Minority interests | | (27) | 504 |
| (Loss)/Profit attributable to shareholders | | (2,536) | 625 |
| (Loss)/Earnings per share — Basic | 4 | HK(0.16) cents | HK0.04 cents |

Notes:

1. Basis of preparation

The unaudited condensed consolidated accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants (“HKSA”). They are prepared under the historical cost convention except that investments are stated at fair value.

The unaudited condensed consolidated accounts should be read in conjunction with the 2004 annual accounts.

The accounting policies and methods of computation used in the preparation of these accounts are consistent with those used in the annual accounts for the year ended 31st March 2004.

2. Turnover

Turnover represents (i) the net invoiced value of merchandise sold after allowances for returns and discounts and (ii) commission from procurement and online steel trading services.

3. Taxation

Taxation consisted of:

| | For the three months ended 30th June | |
|---------------------------------------|---|-------------------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Mainland China enterprise income tax: | | |
| — Current taxation | 136 | 15 |
| — Tax refund | (179) | — |
| | <u> </u> | <u> </u> |
| | (43) | 15 |

The Company is exempted from taxation in Bermuda until 2016. No provision for Hong Kong profits tax has been provided as the Group had no assessable profit during the three months ended 30th June 2004 (2003 : Nil). Subsidiaries established in Mainland China are subject to Mainland China enterprise income tax at rates ranging from 15% to 33% (2003 : 15% to 33%).

4. (Loss)/Earnings per share

The calculations of basic (loss)/earnings per share for three months ended 30th June 2004 were calculated based on the unaudited consolidated loss attributable to shareholders of approximately HK\$2,536,000 (2003: profit of approximately HK\$625,000) and on the weighted average number of 1,596,388,429 (2003: 1,564,503,000) shares and in issue during the three months ended 30th June 2004.

No diluted (loss)/earnings per share is presented as the outstanding warrants and share options were anti-dilutive.

5. Dividends

The Directors do not recommend the payment of an interim dividend for the three months ended 30th June 2004.

6. Movements in share capital and reserves

For the three months ended 30th June 2004, movements in share capital and reserves are as follows:

| | 2004 | | | | | | |
|--|----------------|---------------|-----------------|--------------------------------|---|--------------------|------------------|
| | Share capital | Reserves | | | | | |
| | | Share premium | Capital reserve | Investment revaluation reserve | Cumulative foreign currency translation adjustments | Accumulated losses | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Balance at 1st April 2004 | 159,638 | 11,099 | 2,700 | — | 105 | (160,897) | (146,993) |
| Change in fair value of a long-term investment | — | — | — | 377 | — | — | 377 |
| Loss attributable to shareholders | — | — | — | — | — | (2,536) | (2,536) |
| Issue of shares upon exercise of warrants | 1 | — | — | — | — | — | — |
| Balance at 30th June 2004 | <u>159,639</u> | <u>11,099</u> | <u>2,700</u> | <u>377</u> | <u>105</u> | <u>(163,433)</u> | <u>(149,152)</u> |

For the three months ended 30th June 2003, movements in share capital and reserves are as follows:

| | 2003 | | | | | | |
|--|----------------|---------------|-----------------|--------------------------------|---|--------------------|------------------|
| | Share capital | Reserves | | | | | |
| | | Share premium | Capital reserve | Investment revaluation reserve | Cumulative foreign currency translation adjustments | Accumulated losses | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Balance at 1st April 2003 | 156,450 | 11,099 | 2,700 | (21,865) | 153 | (135,186) | (143,099) |
| Change in fair value of a long-term investment | — | — | — | 355 | 4 | — | 359 |
| Profit attributable to shareholders | — | — | — | — | — | 625 | 625 |
| Balance at 30th June 2003 | <u>156,450</u> | <u>11,099</u> | <u>2,700</u> | <u>(21,510)</u> | <u>157</u> | <u>(134,561)</u> | <u>(142,115)</u> |

BUSINESS REVIEW

FINANCIAL AND BUSINESS PERFORMANCE

The Board of Directors reports as below the iSteelAsia Group's first quarter results for the financial year ending 31st March 2005. For the three months ended 30th June 2004, the iSteelAsia Group recorded a turnover of approximately HK\$238 million, representing a 40% decrease against that for the corresponding period last year. The reasons for the decrease are two folds. Firstly, turnover from the construction steel products had been much affected by the austerity program implemented by the Central Government in the PRC to cool down the overheated real estate industry. Secondly, as a result of limited resources, efforts were implemented in the products selection and deployment of resources to products with greater return to shareholders. However, the macro situation of the PRC Government's austerity program caused a short-term divestment of inventories by most domestic PRC distributors, resulting in a sharp price correction domestically in the month of May and June. Coupled with an ever rising steel price in the rest of the world, the Group experienced a significant short-term adverse impact on its performance. Under such difficult environment, turnover has dropped without improvement in gross margins. Nevertheless, the management believes the austerity program will ultimately bring in long-term benefits to the steel industry in the PRC as it will help to ensure a more stable and sustainable growth environment (i.e. a more disciplined supply market through a more controlled and realistic investment policy, thus minimising the risk of sharp price volatility due to supply/demand inequilibrium). Management is positive on the Group's prospect and believes that the austerity program would help the Group to shakeout smaller competitors with no distinct competitive advantages. A net loss of approximately HK\$2.5 million for the three months ended 30th June 2004 was recorded, as compared to a net profit of approximately HK\$0.6 million for the same period last year.

Total cost excluding cost of inventories sold and finance cost ("Operating Cost") was approximately HK\$6,877,000 for the three months ended 30th June 2004, representing a decrease of more than 20% over the same period in last year. Operating Cost to turnover ratio had decreased substantially from 72.1% in early 2001 and stabilised at around 2%-3% in the current few years. The decrease reflected the Group's successful efforts in optimising its resources through economy of scale to achieve its business growth. On a closer look into the Operating Cost, selling and distribution expenses increased 52.7% to approximately HK\$2.3 million against that for the same period last year. The increase is mainly due to the substantial increases in global shipping and freight charges during the past 12 months. Such increases have outweighed the savings generated from decrease in turnover handling and thus led to the increase in overall selling and distribution expenses. On the other hand, general and administrative expenses decreased 35.7% to approximately HK\$4.6 million for the three months ended 30th June 2004. The decrease is mainly due to resource realignment to products that yield a higher return which resulted in some unnecessary administrative costs being eliminated.

With iSteelAsia's expansion into the second tier cities such as Wuxi and Shunde (Le Chong) in the PRC, being the foundations of manufacturing plants, and with the growth in the major cities like Beijing, Shanghai, Guangzhou, Tianjin, Shenzhen and Chongqing, iSteelAsia reaches 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. The management is confident that the Group will continually be able to tap into these market opportunities and utilise the infrastructure in place to capitalise these opportunities and benefit accordingly.

OUTLOOK

The management is optimistic about the future of the iSteelAsia Group although there is always volatility due to the macro situations which are beyond the Group's capability, such as measures exerted by the Central Government in the PRC. According to MEPS (International) Ltd., the leading supplier of the steel market information, "the current fears about China are over-done. The latest trade figures show that apparent steel consumption in April was more than 20 percent higher than the same month last year. Iron ore imports — an important forward indicator of steel production — were almost 45 percent higher in January — April than in the first four months of 2003". Furthermore, according to the latest statistics, China's crude steel production of June 2004 continued to be on upward trend as compared to the same period of last year, with production totalling 20,797,600 tons which represents an increase of approximately 13.8%. The year to date figures (from January to June) are approximately 137,217,200 tons which represents an increase of 23.2%. It is obvious that the growth of China will not slowdown.

The iSteelAsia Group will continue its path to increase the shareholders' value and operate itself as a full value-added service provider through organic growth, and through mergers and acquisitions or other form of cooperation if the right opportunity arises. The iSteelAsia Group will also continue to undertake rationalisation of its resources and corporate structure to achieve best operational efficiency and build a sound customer base for future growth.

On behalf of the Board of Directors, I would like to express my sincere gratitude to our worldwide suppliers and customers for their trusts and support in our products and services throughout the years. I also wish to take this opportunity to express my sincere appreciation to our shareholders for their confidence in iSteelAsia, as well as our staff for their dedication and continuous commitment to excellence.

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

As at 30th June 2004, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which a Director is taken or deemed to have under such provisions of the SFO) or as recorded in the register required to be kept under Section 352 of SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

Long positions in the Shares and underlying shares of the Company

| Name | Type of interest | Attributable interest to the Director | Number of Shares and approximate % of shareholding (Note 1) | Number of Warrants (Note 2) | Number of options | Aggregate interest |
|--------------------------------|--|---------------------------------------|--|--------------------------------|-------------------|--------------------|
| Mr. Andrew Cho Fai Yao | — Corporate interest held by TN Development (Note 4) | deemed interest (indirectly) | 163,367,600 (10.23%) | 39,260,320 | — | 202,627,920 |
| | — Corporate interest held by Huge Top (Note 5) | more than one-third (indirectly) | 159,811,344 (10.01%) | 31,962,268 | — | 191,773,612 |
| | — Corporate interest held by VSC BVI (Note 6) | through Huge Top (indirectly) | 301,026,000 (18.86%) | 60,205,200 | — | 361,231,200 |
| | — Corporate interest held by Right Action (Note 7) | 100% (directly) | 102,400,000 (6.41%) | 20,480,000 | — | 122,880,000 |
| | — Personal interest (Note 8) | 100% (directly) | — (—) | — | 5,000,000 | 5,000,000 |
| | | | <u>726,604,944 (45.51%)</u> | <u>151,907,788</u> | <u>5,000,000</u> | <u>883,512,732</u> |
| Ms. Miriam Che Li Yao (Note 3) | — Corporate interest held by TN Development (Note 4) | deemed interest (indirectly) | 163,367,600 (10.23%) | 39,260,320 | — | 202,627,920 |
| | — Corporate interest held by Huge Top (Note 5) | deemed interest (indirectly) | 159,811,344 (10.01%) | 31,962,268 | — | 191,773,612 |
| | — Corporate interest held by VSC BVI (Note 6) | through Huge Top (indirectly) | 301,026,000 (18.86%) | 60,205,200 | — | 361,231,200 |
| | — Personal interest (Note 8) | 100% (directly) | — (—) | — | 7,500,000 | 7,500,000 |
| | | | <u>624,204,944 (39.10%)</u> | <u>131,427,788</u> | <u>7,500,000</u> | <u>763,132,732</u> |
| Mr. Desmond Hay Ching Fu | — Personal interest (Note 8) | 100% (directly) | — (—) | — | 11,750,000 | 11,750,000 |
| | | | <u>— (—)</u> | <u>—</u> | <u>11,750,000</u> | <u>11,750,000</u> |

Notes:

1. These shares are the ordinary shares ("Shares") of HK\$0.10 each in the issued share capital of the Company.
2. The warrants of the Company ("Warrants") are listed and entitle the holders to subscribe in cash for Shares at a subscription price of HK\$0.10 each (subject to adjustment) and are exercisable between 18th June 2002 and 17th June 2005. These Warrants represent physically settled equity derivatives.
3. Ms. Miriam Che Li Yao has resigned as an executive director and the deputy chairman of the Company on 30th June 2004.
4. As at 30th June 2004, TN Development Limited ("TN Development") owns 163,367,600 Shares and 39,260,320 Warrants. Van Shung Chong (B.V.I.) Limited ("VSC BVI") owns 54% of the issued share capital of TN Development and Mr. Andrew Cho Fai Yao owns 10% of the issued share capital of TN Development. The board of directors of TN Development only comprises Mr. Andrew Cho Fai Yao and Ms. Miriam Che Li Yao. These interests of the aforesaid Directors in the securities of the Company were corporate interests.

All Shares held by TN Development are, or are intended to be, the subject of options exercisable, in certain circumstances, by designated employees and founding members pursuant to the share option agreements and the revenue option agreements, respectively as disclosed in the Company's prospectus dated 14th April 2000. The sole purpose of TN Development is to provide an avenue to motivate the Company's employees and founding members while at the same time not incurring any dilution effect to the public investors of the Company.

5. As at 30th June 2004, Huge Top Industrial Ltd. ("Huge Top") owns 159,811,344 Shares and 31,962,268 Warrants. Mr. Andrew Cho Fai Yao directly holds 10% and indirectly through Perfect Capital International Corp. ("Perfect Capital") owns more than one-third of the issued share capital of Huge Top. Mr. Andrew Cho Fai Yao owns the entire issued share capital of Perfect Capital. The board of directors of Huge Top only comprises Mr. Andrew Cho Fai Yao and Ms. Miriam Che Li Yao. These interests of the aforesaid Directors in the securities of the Company were corporate interests.
6. As at 30th June 2004, VSC BVI owns 301,026,000 Shares and 60,205,200 Warrants and Huge Top owns approximately 47.13% of the issued share capital of Van Shung Chong Holdings Limited ("VSC"). Mr. Andrew Cho Fai Yao and Ms. Miriam Che Li Yao are directors of VSC. VSC BVI is a wholly-owned subsidiary of VSC. These interests of the aforesaid Directors in the securities of the Company were corporate interests.
7. As at 30th June 2004, Right Action Offshore Inc. ("Right Action") owns 102,400,000 Shares and 20,480,000 Warrants. Mr. Andrew Cho Fai Yao owns the entire issued share capital of Right Action and is also the sole director of that company. These interests were corporate interests in the Company.
8. Under the terms of the Company's share option scheme approved by the shareholders on 13th April 2000 ("the Old Scheme"), the Board of Directors of the Company may at their discretion, invite any full-time employees of the Company or any of the companies of the Group, including any executive Directors, to take up options to subscribe for Shares. The Old Scheme became effective upon the listing of the Shares on 20th April 2000 and was terminated on 10th June 2002.

Details of movement in the share options to subscribe for Shares granted to and held by certain Directors during the three months ended 30th June 2004 under the Old Scheme were as follows:

| Name | Date of grant | Exercise price per Share | Vesting period | Exercise period | Number of options | | |
|--------------------------|-------------------|--------------------------|--|--------------------------------------|---------------------|-------------------------------------|---------------|
| | | | | | Beginning of period | Exercised/ lapsed during the period | End of period |
| Mr. Andrew Cho Fai Yao | 7th November 2000 | HK\$0.485 | 7th November 2000 to 7th November 2001 | 8th November 2001 to 12th April 2010 | 5,000 | — | 5,000 |
| Ms. Miriam Che Li Yao | 3rd July 2000 | HK\$0.360 | 3rd July 2000 to 30th September 2001 | 1st October 2001 to 12th April 2010 | 2,500 | — | 2,500 |
| | 7th November 2000 | HK\$0.485 | 7th November 2000 to 7th November 2001 | 8th November 2001 to 12th April 2010 | 5,000 | — | 5,000 |
| Mr. Desmond Hay Ching Fu | 3rd July 2000 | HK\$0.360 | 3rd July 2000 to 30th September 2001 | 1st October 2001 to 12th April 2010 | 250 | — | 250 |
| | 7th November 2000 | HK\$0.485 | 7th November 2000 to 7th November 2001 | 8th November 2001 to 12th April 2010 | 11,500 | — | 11,500 |

No options under the Old Scheme were granted, exercised or cancelled during the period. Upon termination of the Old Scheme on 10th June 2002, no further options were granted thereunder but in all other respects, the provisions of the Old Scheme remain in force and all options granted prior to such termination continue to be valid and exercisable in accordance therewith. A new share option scheme has been adopted by the Company since 10th June 2002 (the "New Scheme") to replace the Old Scheme to comply with the current statutory requirements. Up to the date of this report, no options have been granted pursuant to the New Scheme. All the above-mentioned options are unlisted and represent physically settled equity derivatives.

For the three months ended 30th June 2004, the Company had complied "Rules 5.46 to 5.67 of the GEM Listing Rules — Model Code for Securities Transactions by Directors" adopted on 31st March 2004 as the required standard against which Directors must measure their conduct regarding transactions in securities of the Company according to Rule 5.46 of the GEM Listing Rules.

Save as disclosed above, as at 30th June 2004, none of the Directors and the chief executives of the Company or their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which a Director is taken or deemed to have under such provisions of the SFO) or as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standards of dealings by Directors as referred in Rules 5.46 to 5.67 of the GEM Listing Rules.

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 30th June 2004, so far as is known to the Directors the following persons (other than the Directors and chief executives of the Company the interests of which were disclosed above) had an interest or short position in the Shares and underlying shares of the Company which were disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO (including interests or short positions which a Director is taken or deemed to have under such provisions of the SFO) and/or were directly or indirectly interested in 10% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group:

Long positions

| Name | Type of interest | Number of Shares and approximate % of shareholding | Number of Warrants | Aggregate interest | Notes |
|--|---|--|-----------------------|-----------------------|-------|
| Substantial shareholders of the Company | | | | | |
| VSC BVI | — directly | 301,026,000 (18.86%) | 60,205,200 | 361,231,200 | |
| | — indirect deemed interest through TN Development | 163,367,600 (10.23%) | 39,260,320 | 202,627,920 | |
| | | 464,393,600 (29.09%) | 99,465,520 | 563,859,120 | 1 |

| Name | Type of interest | Number of Shares and approximate % of shareholding | Number of Warrants | Aggregate interest | Notes |
|--|---|--|-----------------------|-----------------------|----------|
| Substantial shareholders of the Company | | | | | |
| VSC | — indirectly through VSC BVI | 301,026,000 (18.86%) | 60,205,200 | 361,231,200 | |
| | — indirect deemed interest through TN Development | 163,367,600 (10.23%) | 39,260,320 | 202,627,920 | |
| | | <u>464,393,600 (29.09%)</u> | <u>99,465,520</u> | <u>563,859,120</u> | 1 & 2 |
| Huge Top | — directly | 159,811,344 (10.01%) | 31,962,268 | 191,773,612 | |
| | — indirectly through VSC BVI | 301,026,000 (18.86%) | 60,205,200 | 361,231,200 | |
| | — indirect deemed interest through TN Development | 163,367,600 (10.23%) | 39,260,320 | 202,627,920 | |
| | | <u>624,204,944 (39.10%)</u> | <u>131,427,788</u> | <u>755,632,732</u> | 1, 2 & 3 |
| Perfect Capital | — indirectly through Huge Top | 159,811,344 (10.01%) | 31,962,268 | 191,773,612 | |
| | — indirectly through VSC BVI | 301,026,000 (18.86%) | 60,205,200 | 361,231,200 | |
| | — indirect deemed interest through TN Development | 163,367,600 (10.23%) | 39,260,320 | 202,627,920 | |
| | | <u>624,204,944 (39.10%)</u> | <u>131,427,788</u> | <u>755,632,732</u> | 1, 2 & 3 |
| TN Development | — directly | 163,367,600 (10.23%) | 39,260,320 | 202,627,920 | 4 |
| Other shareholder of the Company | | | | | |
| Right Action | — directly | 102,400,000 (6.41%) | 20,480,000 | 122,880,000 | |

Notes:

1. VSC BVI owns 54% of the share capital of TN Development and is deemed to be interested in the 163,367,600 Shares and 39,260,320 Warrants held by TN Development as at 30th June 2004. VSC BVI directly owns 301,026,000 Shares and 60,205,200 Warrants as at 30th June 2004. VSC BVI is therefore directly and indirectly interested in an aggregate of 464,393,600 Shares and 99,465,520 Warrants.
2. VSC owns the entire issued share capital of VSC BVI, VSC is therefore deemed to be interested in an aggregate of 464,393,600 Shares and 99,465,520 Warrants.
3. Perfect Capital owns more than one-third of the share capital of Huge Top as at 30th June 2004. Huge Top is beneficially interested in approximately 47.13% of the issued share capital of VSC as at 30th June 2004 and Perfect Capital and Huge Top are therefore deemed to be interested in the 163,367,600 Shares and 39,260,320 Warrants held by TN Development and the 301,026,000 Shares and 60,205,200 Warrants held by VSC BVI as at 30th June 2004. As at the same date, Huge Top also directly owns 159,811,344 Shares and 31,962,268 Warrants. Huge Top is therefore directly and indirectly interested in an aggregate of 624,204,944 Shares and 131,427,788 Warrants, and Perfect Capital is indirectly interested in the same aggregate interests.
4. All Shares held by TN Development are, or are intended to be, the subject of options exercisable, in certain circumstances, by designated employees and founding members pursuant to the share option agreements and the revenue option agreements, respectively as disclosed in the Company's prospectus dated 14th April 2000. The sole purpose of TN Development is to provide an avenue to motivate the Company's employees and founding members while at the same time not incurring any dilution effect to the public investors of the Company.

Save as disclosed above, as at 30th June 2004, the Directors were not aware of any other person (other than the Directors and chief executives of the Company the interests of which were disclosed above) who had an interest or short position in the Shares and underlying shares of the Company which were disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO (including interests or short positions which a Director is taken or deemed to have under such provisions of the SFO) and/or were directly or indirectly interested in 10% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

COMPETING INTERESTS

Mr. David Michael Faktor, a non-executive Director of the Company, is the director of Stemcor Holdings Limited whose business is principally engaged in international steel trading. Mr. Andrew Cho Fai Yao and Ms. Miriam Che Li Yao are the Chairman and the Deputy Chairman of the Company (Ms. Yao resigned on 30th June 2004), respectively, and also the chairman and the deputy chairman (Ms. Yao retired on 11th August 2004) of VSC, respectively and VSC is also engaged in steel trading business. The Directors believe that there is a risk that such businesses may compete with those of the Group. However, the Directors are also of the view that the invaluable experience of Mr. Faktor, Mr. Yao and Ms. Yao in the steel industry will complement the development of the Group's business.

Save as disclosed above, none of the Directors or the management shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete with the business of the Group or has any other conflict of interests with the Group.

PURCHASES, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the three months ended 30th June 2004.

CORPORATE GOVERNANCE

In the opinion of Directors, the Company had complied with the "Board Practices and Procedures" as set out in Rules 5.34 to 5.45 of the GEM Listing Rules throughout the period under review, except that the non-executive Directors are not appointed for a specific term. However, the non-executive Directors are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's Bye-laws.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference based upon the guidelines recommended by the Hong Kong Society of Accountants. The duties of the audit committee include reviewing the Company's annual reports and quarterly reviews and providing advice and comments thereon to the Board of Directors. The audit committee is also responsible for reviewing and supervising the Company's financial reporting and internal control procedures. The audit committee comprises two independent non-executive directors, namely Mr. Philip King Huen Ma and Mr. Kennedy Ying Ho Wong. These unaudited accounts for the three months ended 30th June 2004 of the Company now reported on have been reviewed by the Audit Committee.

On behalf of the Board of Directors,
Desmond Hay Ching Fu
Director and Chief Executive Officer

Hong Kong, 13th August 2004

The Directors as at the date of this report are:

Executive Directors: Andrew Cho Fai Yao (*Chairman*); Desmond Hay Ching Fu

Non-executive Director: David Michael Faktor

Independent non-executive Directors: Philip King Huen Ma; Kennedy Ying Ho Wong