

iSteelAsia

iSteelAsia Holdings Limited

(亞鋼集團有限公司)*

(Incorporated in Bermuda with limited liability)

(Stock code: 8080)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31ST MARCH 2005

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

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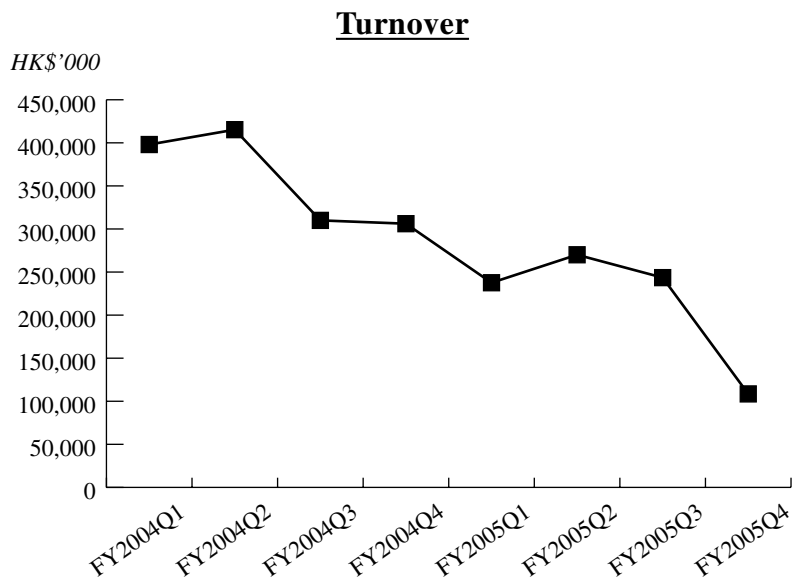
This announcement, for which the directors of iSteelAsia Holdings Limited (the “Directors”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the “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 announcement 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 announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

* For identification purposes only

HIGHLIGHTS

Turnover

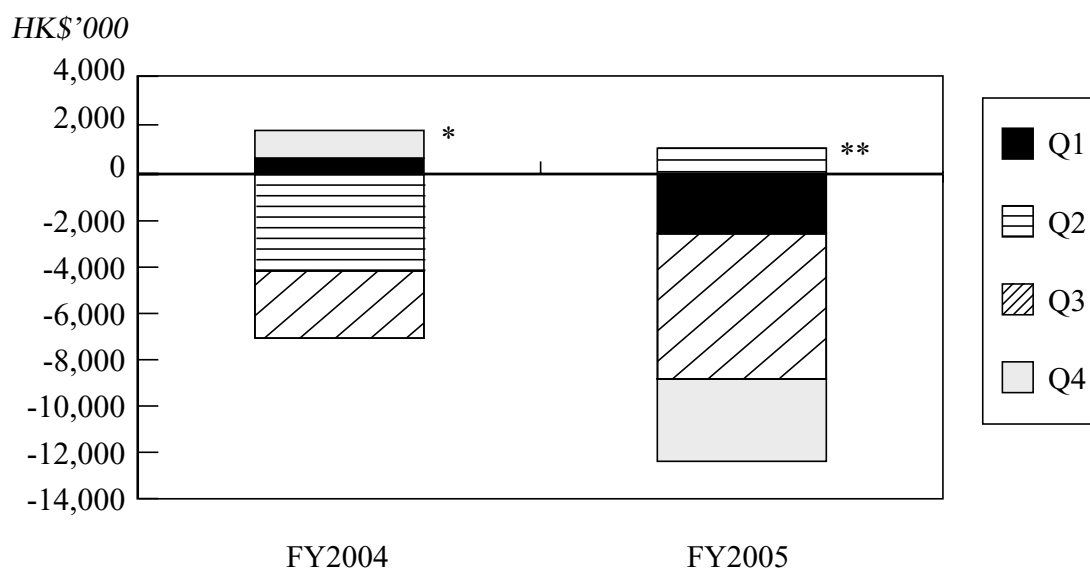
For the year ended 31st March 2005, the iSteelAsia Group recorded a turnover of approximately HK\$860 million, representing a 40% decrease by comparing the results in last year.



Profit/(Loss) attributable to shareholders

The iSteelAsia Group recorded a loss attributable to shareholders of approximately HK\$10,443,000, an approximately 59% decline from last financial year's loss figure of approximately HK\$25,711,000. However, on a closer analysis of the figures, the iSteelAsia Group's performance of its core trading operations as represented by the operating loss of HK\$352,000 (after excluding the gain on disposal of investments, net of approximately is HK\$911,000) for the year reflected a reduction in profit of approximately HK\$3,646,000 as compared to the similar figure of approximately HK\$3,294,000 (after excluding the impairment loss of an investment of approximately HK\$20,414,000) for the previous year ended 31st March 2004. At the same time, in light of the poor market condition and the risks so associated with, the management of the iSteelAsia Group has also taken a prudent review on the carrying value of its assets and the operations and made necessary provisions for diminution in value relating to inventories, receivables, deferred tax assets and deposits in dispute amounting to approximately HK\$9,889,000. Such provisions have been made on a conservative scenario basis.

Profit/(Loss) attributable to shareholders



* The amount does not include the impairment loss of the investment in AAM of approximately HK\$20,414,000.

** The amount does not include the gain on disposal of investments, net of approximately HK\$911,000.

RESULTS

The following is the audited consolidated results of iSteelAsia Holdings Limited (the “Company” or “iSteelAsia”) and its subsidiaries (collectively the “Group” or “iSteelAsia Group”) for the year ended 31st March 2005, together with the comparative audited figures for the year ended 31st March 2004, as follows:

	<i>Note</i>	For the year ended	
		31st March	
		2005	2004
		HK\$'000	<i>HK\$'000</i>
Turnover	2	859,685	1,429,443
Cost of sales		(828,580)	(1,390,654)
Gross profit		31,105	38,789
Other revenues		1,239	1,078
Selling and distribution expenses		(7,494)	(7,891)
General and administrative expenses		(25,139)	(28,682)
Gain on disposal of investments, net		911	—
Impairment loss of an investment		—	(20,414)
Loss on disposal of subsidiaries, net		(63)	—
Operating profit/(loss)		559	(17,120)
Finance costs		(5,056)	(7,922)
Loss before taxation		(4,497)	(25,042)
Taxation	3	(5,946)	(889)
Loss after taxation but before minority interests		(10,443)	(25,931)
Minority interests		—	220
Loss attributable to shareholders		(10,443)	(25,711)
Loss per share — Basic	4	HK (0.65) cents	HK (1.63) cents

Notes:

1. Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention except that investments are stated at fair value.

The HKICPA issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1st January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 31st March 2005. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

2. Turnover and segment information

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.

a. Primary segment

The Group is organised into three major business segments — steel trading, procurement services and investment holding. The steel trading business segment derives revenue from the sale of merchandise. The procurement services business segment derives commission income from procurement and online steel trading services. The investment holding business segment derives revenue from dividend income. Analysis by business segment is as follows:

	2005			
	Steel trading	Procurement services and others	Investment holding	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover — Sales to external customers	<u>854,564</u>	<u>5,121</u>	<u>—</u>	<u>859,685</u>
Segment results	<u>(1,654)</u>	<u>604</u>	<u>(62)</u>	(1,112)
Other revenues	578	—	661	1,239
Gain on disposal of investments, net	—	—	911	911
Loss on disposal of subsidiaries, net	(63)	—	—	(63)
Unallocated corporate expenses				<u>(416)</u>
Operating profit				559
Finance costs				(5,056)
Taxation				<u>(5,946)</u>
Loss after taxation but before minority interests				<u>(10,443)</u>
Assets				
Segment assets	164,155	353	780	165,288
Unallocated assets				<u>460</u>
				<u>165,748</u>
Liabilities				
Segment liabilities	(163,235)	—	(71)	(163,306)
Unallocated liabilities				<u>(305)</u>
				<u>(163,611)</u>
Capital expenditure	191	5	780	<u>976</u>
Depreciation and amortisation	1,016	27	—	<u>1,043</u>

	2004			
	Steel trading <i>HK\$'000</i>	Procurement services and others <i>HK\$'000</i>	Investment holding <i>HK\$'000</i>	Total <i>HK\$'000</i>
Turnover — Sales to external customers	<u>1,416,236</u>	<u>13,207</u>	<u>—</u>	<u>1,429,443</u>
Segment results	<u>(2,667)</u>	<u>5,757</u>	<u>(52)</u>	3,038
Other revenues	657	—	421	1,078
Impairment loss of a long-term investment	—	—	(20,414)	(20,414)
Unallocated corporate expenses				<u>(822)</u>
Operating loss				(17,120)
Finance costs				(7,922)
Taxation				<u>(889)</u>
Loss after taxation but before minority interests				<u>(25,931)</u>
Assets				
Segment assets	360,392	859	25,536	386,787
Unallocated assets				<u>400</u>
				<u>387,187</u>
Liabilities				
Segment liabilities	(373,448)	(16)	(50)	(373,514)
Unallocated liabilities				<u>(1,028)</u>
				<u>(374,542)</u>
Capital expenditure	1,021	17	—	<u>1,038</u>
Depreciation and amortisation	1,069	892	—	<u>1,961</u>

b. Secondary segment

The Group's activities are conducted predominantly in Hong Kong and Mainland China. Turnover by geographical segment is determined on the basis of the destination of shipment of merchandise for steel trading, location of services performed for procurement services, location of sellers for online commission income, and location of short-term/long-term investments for dividend income. Analysis by geographical segment is as follows:

	2005			Total <i>HK\$'000</i>
	Hong Kong <i>HK\$'000</i>	Mainland China <i>HK\$'000</i>	Others <i>HK\$'000</i>	
Turnover — Sales to external customers	<u>15,280</u>	<u>844,405</u>	<u>—</u>	<u>859,685</u>
Segment results	<u>(586)</u>	<u>4,162</u>	<u>(2,601)</u>	975
Unallocated corporate expenses				<u>(416)</u>
Operating profit				<u>559</u>
Assets	<u>1,891</u>	<u>163,373</u>	<u>484</u>	<u>165,748</u>
Capital expenditure	<u>61</u>	<u>910</u>	<u>5</u>	<u>976</u>
	2004			Total <i>HK\$'000</i>
	Hong Kong <i>HK\$'000</i>	Mainland China <i>HK\$'000</i>	Others <i>HK\$'000</i>	
Turnover — Sales to external customers	<u>39,029</u>	<u>1,390,414</u>	<u>—</u>	<u>1,429,443</u>
Segment results	<u>(21,072)</u>	<u>11,678</u>	<u>(6,904)</u>	(16,298)
Unallocated corporate expenses				<u>(822)</u>
Operating loss				<u>(17,120)</u>
Assets	<u>49,393</u>	<u>311,808</u>	<u>25,986</u>	<u>387,187</u>
Capital expenditure	<u>260</u>	<u>759</u>	<u>19</u>	<u>1,038</u>

3. Taxation

Taxation consisted of:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Current taxation		
Hong Kong profits tax	—	—
Mainland China enterprise income tax		
— Current year	1,988	6,262
— Overprovisions in prior years	(525)	(890)
Deferred taxation relating to the origination and reversal of temporary differences	<u>4,483</u>	<u>(4,483)</u>
	<u>5,946</u>	<u>889</u>

The Company is exempted from taxation in Bermuda until 2016. No Hong Kong profits tax has been provided as the Group had no assessable profit arising in or derived from Hong Kong. The subsidiaries established in Mainland China are subject to Mainland China enterprise income tax at the rates ranging from 15% to 33% (2004: 15% to 33%).

4. Loss per share

The calculation of basic loss per share for the year ended 31st March 2005 is based on the consolidated loss attributable to shareholders of approximately HK\$10,443,000 (2004: HK\$25,711,000) and the weighted average of approximately 1,596,443,000 (2004: 1,575,758,000) ordinary shares in issue during the year.

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

5. Dividends

The Directors do not recommend the payment of a final dividend for the year ended 31st March 2005.

6. Movements in share capital and reserves

For the year ended 31st March 2005, movements in share capital and reserves are as follows:

	Share capital		Reserves				Total
	Share premium	Capital reserve	Investment revaluation reserve	Cumulative foreign currency translation adjustments	Accumulated losses		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1st April 2003	156,450	11,099	2,700	(21,865)	153	(135,186)	(143,099)
Loss attributable to shareholders	—	—	—	—	—	(25,711)	(25,711)
Change in fair value of a long-term investment	—	—	—	1,451	—	—	1,451
Investment revaluation reserve transferred to profit and loss account upon recognition of impairment loss of a long-term investment	—	—	—	20,414	—	—	20,414
Issue of shares upon exercise of warrants	68	—	—	—	—	—	—
Issue of shares for settlement of a payable	3,120	—	—	—	—	—	—
Translation adjustments	—	—	—	—	(48)	—	(48)
As at 31st March 2004	159,638	11,099	2,700	—	105	(160,897)	(146,993)
Loss attributable to shareholders	—	—	—	—	—	(10,443)	(10,443)
Change in fair value of a long-term investment	—	—	—	548	—	—	548
Realised upon disposal of a long-term investment	—	—	—	(548)	—	—	(548)
Issue of share upon exercise of warrants	21	—	—	—	—	—	—
Translation adjustments	—	—	—	—	(86)	—	(86)
As at 31st March 2005	<u>159,659</u>	<u>11,099</u>	<u>2,700</u>	<u>—</u>	<u>19</u>	<u>(171,340)</u>	<u>(157,522)</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Financial and Business Performance

The management of iSteelAsia Holdings Limited (the “Company” or “iSteelAsia”) and its subsidiaries (collectively the “Group” or “iSteelAsia Group”) reports its annual results for the financial year ended 31st March 2005. For the year ended 31st March 2005, the iSteelAsia Group recorded a turnover of approximately HK\$860 million, representing a 40% decrease by comparing the results in last year.

For the year under review, the iSteelAsia Group recorded a loss attributable to shareholders of approximately HK\$10,443,000, an approximately 59% decline from last financial year’s loss figure of approximately HK\$25,711,000. However, on a closer analysis of the figures, the iSteelAsia Group’s performance of its core trading operations as represented by the operating loss of HK\$352,000 (after excluding the gain on disposal of investments, net of approximately HK\$911,000) for the year reflected a reduction in profit of approximately HK\$3,646,000 as compared to the similar figure of approximately HK\$3,294,000 (after excluding the impairment loss of an investment of approximately HK\$20,414,000) for the previous year ended 31st March 2004. This weakening of operational profitability was mainly due to the continued challenging operating environment caused by the volatility in the steel prices and the selective austerity measures implemented by the PRC Central government during the financial year. Under such circumstances, the management proactively implemented efforts in consolidating the Group’s limited financial resources to focus more on the selected higher margin steel products and selected geographic areas that could have brought greater returns. During the year under review, the Group has consolidated the coverage of the Beijing and Tianjin markets with its Shanghai office through the exiting of the two local offices there. The result of these efforts could be evidenced from the fact that, despite the decrease in turnover, the gross margin for the year increased 33% to approximately 3.6% by comparing the previous year’s gross margin of 2.7%. On the investment front, the Group has also divested various investments including the receiving of the initial invested capital from its investment in Stemcor Holdings Limited (“Stemcor”), and also divested its investment in AcrossAsia Multimedia Limited (“AAM”), and reallocating these capitals for its core operations. At the same time, in light of the poor market condition and the risks so associated with, the management of the iSteelAsia Group has also taken a prudent review on the carrying value of its assets and the operations and made necessary provisions for diminution in value relating to inventories, receivables, deferred tax assets and deposits in dispute amounting to approximately HK\$9,889,000. Such provisions have been made on a conservative scenario basis.

In the meantime, the management of the Group successfully made its efforts in optimising resources for the economy of scale to achieve business growth over the year. It was mainly done through decreasing total cost excluding cost of inventories sold and finance costs (“Operating Cost”) from approximately HK\$36,573,000 in last year to approximately HK\$32,633,000 this year, representing a decrease of about 11% over the same period. Although turnover decreased, interest expense from the year amounts to approximately HK\$5,056,000 representing approximately 0.59% of the turnover, while interest expenses represented only 0.55% of the turnover for the previous financial year due to an increasing interest rate.

Financial resources and liquidity

As at 31st March 2005, the iSteelAsia Group's aggregate short-term bank borrowings, comprising trust receipts bank loans and short-term working capital bank loans, were approximately HK\$24,360,000 (2004: HK\$51,426,000). The short-term working capital bank loans amounted to approximately HK\$21,735,000 (2004: HK\$24,570,000) with interest rates ranging from 5.5% to 5.6% per annum (2004: 4.5% to 5.4% per annum). As at 31st March 2005, the gearing ratio (short-term bank borrowings divided by the shareholders' equity) was approximately 11.40 (2004: 4.07). The alarmingly large jump (180%) in the gearing ratio reflects the Group has significantly increased its leverage during the year under review. Although short-term bank borrowings has decreased resulting from a decrease in the Group's inventory level, it is still not sufficient to compensate for the Group's decrease in its equity value. The decrease in equity value caused by the Group's losses over the years, coupled with the macro sentiment of an increasingly risky profile for the volatile steel sector has prompted a tightening of banking resources available to the Group. As at 31st March 2005, the iSteelAsia Group had aggregated banking facilities of approximately HK\$88,125,000 (2004: HK\$159,155,000) derived mainly from several banks for overdrafts, loans, and trade financing. Unused facilities as at the same date amounted to approximately HK\$63,765,000 (2004: HK\$69,691,000). These facilities were secured by (a) corporate guarantees provided by iSteelAsia and/or (b) the iSteelAsia Group's inventories held under trust receipts bank loan arrangement.

In addition to the above said banking facilities, the Group also relies substantively from its largest shareholder — Van Shung Chong Holdings Limited (“VSC”) (Stock code: 1001) together with its subsidiaries (“the VSC Group”) by leveraging off the VSC Group aggregate purchasing power. Using the VSC Group as a supplier to the Group, the Company is able to enjoy much more favorable terms from the steel mills. As of the financial year end of 2004/05, the Group had outstanding balance due to the VSC Group in excess of HK\$118,000,000 (2003/04: in excess of HK\$205,000,000).

Cash and cash equivalents

As at 31st March 2005, bank deposits of approximately HK\$16,080,000 (2004: HK\$34,439,000) were pledged as collateral for the Group's banking facilities.

As at 31st March 2005, the iSteelAsia Group's cash and bank deposits amounted to approximately HK\$29,343,000 (2004: HK\$89,872,000), of which approximately HK\$11,701,000 was denominated in Renminbi and deposited with the banks in China.

Investments

During the year, investments comprised equity interests in Stemcor.

Under a share subscription agreement with Stemcor, Stemcor has granted the iSteelAsia Group a put option under which the iSteelAsia Group may require Stemcor to repurchase all of the shares subscribed by the iSteelAsia Group for HK\$23,400,000 (equivalent to US\$3,000,000). The put option will be exercisable by the iSteelAsia Group no earlier than the date on which the amount of shareholders' equity of Stemcor falls below £15,000,000 as shown in the management accounts of Stemcor from time to time or 30th April 2002, whichever is earlier, and no later than 31st October 2002 according to the Put Option

Agreement. The due date for exercising the put option has been extended from 31st October 2002 to 31st October 2003 and further to 31st October 2004. At 13th May 2004, the iSteelAsia Group exercised its put option to sell its 3.5% equity interest in Stemcor for HK\$23,400,000 which was satisfied by a nine-month promissory note issued by Stemcor. Subsequently, the promissory note was realised at the maturity date on 1st March 2005.

During the year ended 31st March 2005, the iSteelAsia Group had received dividend income of approximately HK\$659,000 (2004: HK\$421,000) from Stemcor. The return on investment was approximately 2.82% (2004: 1.80%).

Foreign currency exposure

The foreign currency exposure of the iSteelAsia Group is mainly driven by its business operations. The sales receipts are collected in Renminbi, United States dollars and Hong Kong dollars, mainly depending on the locations of the customers. On the other hand, the steel products purchases are mainly denominated in United States dollars and Renminbi. Therefore, with a comparatively minimal fluctuation in exchange rates between United States dollars with Renminbi and Hong Kong dollars, the iSteelAsia Group considers the foreign currency exposure is minimal for the year under review. The iSteelAsia Group will continue to exert efforts in managing its potential currency risk profile in the future.

Number of employees, remuneration policies and share option scheme

As at 31st March 2005, the iSteelAsia Group employed 42 (2004: 80) staff. Salaries and annual bonuses are determined according to positions and performance of the employees. The iSteelAsia Group provides on-the-job training and training subsidies to its employees in addition to pension schemes and medical insurance. Total staff costs including contribution to retirement benefit schemes incurred during the year under review amounted to approximately HK\$9,416,000 (2004: HK\$15,232,000).

On 10th June 2002, the Company adopted an employee share option scheme (the “New Scheme”) under which the Company’s Board of Directors may at its discretion offer stock option to any employee/agent/consultant or representative, including any executive or non-executive director, of any member of the Group or any other person who satisfies the selection criteria as set out in the New Scheme. The principal purposes of the New Scheme are to provide incentives to participants to contribute to the Group and/or to enable the Group to recruit and/or to retain high-calibre employees and attract human resources that are valuable to the Group. The New Scheme shall be valid and effective for a period of ten years commencing on the adoption date (i.e. 10th June 2002). No options were granted under the New Scheme up to the date of this announcement. The New Scheme was adopted to replace the previous old scheme, with all options granted under the old scheme continue to be exercisable in accordance with the old terms.

PURCHASE, 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 year ended 31st March 2005.

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 in force prior to 31st December 2004 throughout the year 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.

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

Hong Kong, 9th June 2005

As at the date of this announcement, the Board comprised Andrew Cho Fai Yao (Chairman), Desmond Hay Ching Fu (being the executive Directors), David Michael Faktor (being the non-executive Director), Philip King Huen Ma, Kennedy Ying Ho Wong, Kenny King Ching Tam (being the independent non-executive Directors).

This announcement will remain on the “Latest Company Announcements” page of the GEM website for at least 7 days from its date of publication.