

iSteelAsia Holdings Limited

亞鋼集團有限公司*

(In the process of changing its name to North Asia Strategic Holdings Limited)

(更改其名稱為北亞策略控股有限公司*正進行中)



FIRST QUARTERLY REPORT FOR THE THREE MONTHS ENDED 30TH JUNE 2005

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

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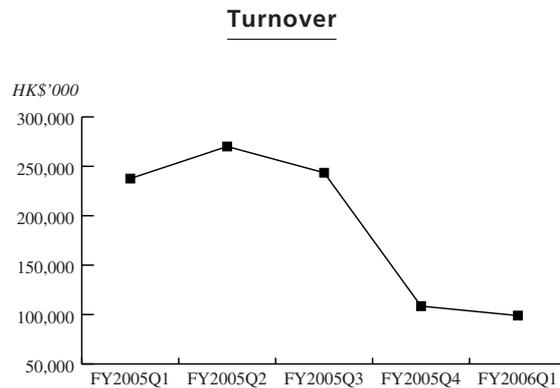
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This report, for which the directors of iSteelAsia Holdings Limited (“the Directors”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth 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

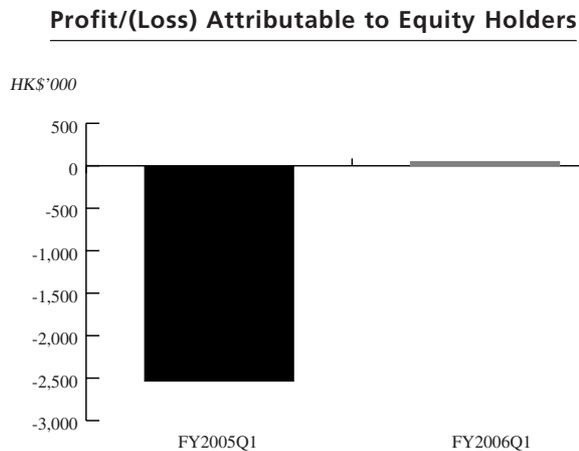
Turnover

For the three months ended 30th June 2005, the iSteelAsia Group recorded a turnover of approximately HK\$98,924,000, representing a 58% decrease against that for the corresponding period last year. The reasons for the decrease are as below. Firstly, the decrease in turnover was due to the Central Government's continuous deployment of a package of macro-entrenchment policies to limit the excessive investments in several overheated industries including the steel, real estate development sector, aluminum, automobile and cement industries. Secondly, the PRC Ministry of Finance and the State Administration of Taxation abolished the export drawback of billet (steel ingot) on 1st April 2005, and then adjusted the export drawback rate of 20 steel products from 13% to 11%.



Profit/(Loss) attributable to equity holders

A net profit of approximately HK\$50,000 for the three months ended 30th June 2005 was recorded, versus net loss of approximately HK\$2,536,000 for the corresponding period last year.



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 2005, together with the comparative unaudited figures for the corresponding period in 2004, as follows:

	Note	For the three months ended 30th June	
		2005 HK\$'000	2004 HK\$'000
Turnover	3		
— Sales		97,981	236,288
— Commission		943	1,299
Cost of sales		(96,597)	(232,475)
Gross profit		2,327	5,112
Other revenue	4	3,065	553
Selling and distribution expenses		(932)	(2,274)
General and administrative expenses		(3,059)	(4,603)
Operating profit/(loss)		1,401	(1,212)
Finance costs		(1,138)	(1,340)
Profit/(Loss) before taxation		263	(2,552)
Taxation	5	(213)	43
Profit/(Loss) for the period		50	(2,509)
Attributable to:			
Equity holders of the Company		50	(2,536)
Minority interests		—	27
		50	(2,509)
Earnings/(Loss) per share for profit/(loss) attributable to the equity holders of the Company — Basic	6	HK0.003 cents	HK(0.159) 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 Institute of Certified Public Accountants ("HKICPA").

These unaudited condensed consolidated accounts should be read in conjunction with the 2005 annual accounts.

The accounting policies and methods of computation used in the preparation of these unaudited condensed consolidated accounts are consistent with those used in the annual accounts for the year ended 31st March 2005 except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRS") which are effective for accounting periods commencing on or after 1st January 2005.

These unaudited condensed consolidated accounts have been prepared in accordance with those HKFRS standards and interpretations issued and effective as at the time of preparing this information. The HKFRS standards and interpretations that will be applicable at 31st March 2006, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing these unaudited condensed consolidated accounts.

The changes to the Group's accounting policies and the effect of adopting these new policies are set out in note 2 below.

2. Changes in accounting policies

Effect of adopting new HKFRS

In the three months ended 30th June 2005, the Group adopted the new/revised standards of HKFRS below, which are relevant to its operations.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 17, 21, 23, 24, 27, 32, 33, 36, 38 and 39 and HKFRS 3 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 has affected the presentation of minority interest and other disclosures.
- HKASs 2, 7, 8, 10, 16, 17, 23, 27, 33, 36 and 38 and HKFRS 3 had no material effect on the Group's policies.
- HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.
- HKAS 24 has affected the identification of related parties and some other related-party disclosures.
- The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss.
- The adoption of HKFRS 2 has resulted in a change in accounting policy for share-based payments. In prior years, the provision of share options to employees did not result in an expense in the profit and loss account. The transitional provision of HKFRS 2 requires the cost of share options granted after 7th November 2002 and had not yet vested on 1st January 2005 should be expensed retrospectively in the profit and loss account of the respective periods. However, as no share options have been granted since 7th November 2002, the provision of HKFRS 2 is not applicable to the Group's outstanding options as at 30th June 2005.

3. 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.

4. Other revenue

Other revenue for the three months ended 30th June 2005 mainly represents a write-back of provision for customer's claims made in last year.

5. Taxation

Taxation consisted of:

	For the three months ended 30th June	
	2005	2004
	HK\$'000	HK\$'000
Mainland China enterprise income tax:		
— Current taxation	213	136
— Tax refund	—	(179)
	213	(43)

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 2005 (2004: Nil). Subsidiaries established in Mainland China are subject to Mainland China enterprise income tax at rates ranging from 15% to 33% (2004: 15% to 33%).

6. Earnings/(Loss) per share

The basic earnings/(loss) per share for three months ended 30th June 2005 was calculated based on the unaudited consolidated profit attributable to shareholders of approximately HK\$50,000 (2004: loss of approximately HK\$2,536,000) and on the weighted average number of 1,596,692,713 (2004: 1,596,388,429) shares and in issue during the three months ended 30th June 2005.

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

7. Dividends

The Directors do not recommend the payment of an interim dividend for the three months ended 30th June 2005.

8. Movements in share capital and reserves

For the three months ended 30th June 2005, movements in share capital and reserves are as follows:

	Share capital	2005				
		Reserves				
		Share premium	Capital reserve	Cumulative foreign currency translation adjustments	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1st April 2005	159,659	11,099	2,700	19	(171,340)	(157,522)
Profit attributable to shareholders	—	—	—	—	50	50
Issue of shares upon exercise of warrants	30	—	—	—	—	—
Balance at 30th June 2005	<u>159,689</u>	<u>11,099</u>	<u>2,700</u>	<u>19</u>	<u>(171,290)</u>	<u>(157,472)</u>

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>

9. Subsequent events

Subsequent to 30th June 2005 on 14th July 2005, the Company approved the following transactions at its special general meeting:

- (i) A capital reorganisation, including the following:
- consolidate the Company's every 100 ordinary shares of HK\$0.10 each into one consolidated share of HK\$10.0 and thereafter reduce the Company's issued share capital by way of cancellation of the paid-up capital to the extent of HK\$9.99 on each issued consolidated share such that the par value of all the issued consolidated shares would be reduced from HK\$10.0 each to HK\$0.01 each;
 - increase in the Company's authorised share capital back to its original amount of HK\$400,000,000, by the creation of additional new ordinary share of HK\$0.01 each; and
 - cancel the Company's entire share premium reserve of approximately HK\$11.1 million.

The credits arising from the aforementioned capital reduction of approximately HK\$159.5 million and from the cancellation of the share premium reserve of approximately HK\$11.1 million, totalling approximately HK\$170.6 million, would be transferred to the Company's contributed surplus account which will be used to set off against the Company's accumulated losses which amounted to approximately HK\$161.6 million as at 31st March 2005.

- (ii) An offer to shareholders to subscribe new shares of HK\$0.01 each at a subscription price of HK\$0.1566 each, on the basis of one new share for holder of one share after the aforementioned capital reorganisation. The Company would raise an aggregate sum of approximately HK\$2.5 million. Such an offer is underwritten by Van Shung Chong (B.V.I.) Limited, a substantial shareholder holding approximately 18.9% of the Company's equity interest at 31st March 2005.
- (iii) Issue an aggregate of 63,856,960 shares of HK\$0.01 each, after the aforementioned capital reorganisation, to third parties (North Asia Strategic Acquisition Corp. and Mr. Tsang Moses Kwok Tai) at a subscription price of HK\$0.1566 each, raising a total of approximately HK\$10.0 million.
- (iv) Issue convertible and redeemable bonds to third parties (North Asia Strategic Acquisition Corp. and Mr. Tsang Moses Kwok Tai) at face value of HK\$20.0 million. These bonds are non-interest bearing and can be converted into the Company's ordinary shares of HK\$0.01 each at an initial conversion price of HK\$0.1566 each (subject to adjustments) at any time. Holders of these bonds also have the right to request the Company to redeem in whole or in part of the outstanding bonds on a date which is 5 business days after 30th November 2007. Unless previously converted or redeemed, the outstanding principal amount of the bonds will be redeemed by the Company at par on the date which is 5 years after the date of issue or such later dates as may be agreed between the holders of the bonds and the Company.

The effective date of the capital reorganisation was on 15th July 2005 and the other transactions above were completed on 8th August 2005.

BUSINESS REVIEW

Financial and Business Performance

The Board of Directors of the Company (the "Board") reports as below the iSteelAsia Group's first quarterly results for the financial year ending 31st March 2006. For the three months ended 30th June 2005, the iSteelAsia Group recorded a turnover of approximately HK\$98,924,000, representing a 58% decrease against that for the corresponding period last year. The reasons for the decrease are as below. Firstly, the decrease in turnover was due to the Central Government's continuous deployment of a package of macro-entrenchment policies to limit the excessive investments in several overheated industries including the steel, real estate development sector, aluminum, automobile and cement industries. Secondly, the PRC Ministry of Finance and the State Administration of Taxation abolished the export drawback of billet (steel ingot) on 1st April 2005, and then adjusted the export drawback rate of 20 steel products from 13% to 11%. This situation will certainly restrain the export of interrelated steel products and sharpen the domestic competition. Since the supply exceeds demand in both inland and international markets, the steel price decreased in the first quarter, the merchants turned out to be wait-and-see, and turnover was much affected.

Under such difficult environment, the management had put substantial efforts in allocation of its limited resources to selected products that could have brought into greater return to shareholders. This could be evidenced from the fact that the gross margin increased from approximately 2.2% for the corresponding period last year to approximately 2.4% for the three months ended 30th June 2005. Furthermore, a net profit of approximately HK\$50,000 for the three months ended 30th June 2005 was recorded, versus net loss of approximately HK\$2,536,000 for the corresponding period last year.

Total cost excluding cost of inventories sold and finance costs ("Operating Cost") was approximately HK\$3,991,000, representing a decrease of approximately 42% from the same period in last year. The decrease in selling and distribution expenses was generally in line with the decrease in turnover. Total general and administration expenses decreased by 34% to approximately HK\$3,059,000 comparing the expenses incurred for the corresponding period last year. Such decrease was led by the resources realignment to products that yielded a higher return, resulting in some unnecessary administrative costs being eliminated.

OUTLOOK

As stated above, given the current difficult operating environment coupled with an interest rate uptrend, there is an imminent need for the Company to adjust itself. Therefore, the consortium of investors (the “Investors”) — North Asia Strategic Acquisition Corp. and Mr. Tsang Moses Kwok Tai are introduced to our group. The series of transactions, which were announced on 19th May 2005, are inter-conditional of one another and involve a capital reorganisation of the Company’s shares, an open offer to the Company’s registered shareholders and a subscription of new shares and convertible bonds by the Investors. These series of transactions were completed on 8th August 2005 (except the effective date of the capital reorganisation was on 15th July 2005) which has enhanced the Company’s cash position by more than HK\$30 million, with the Investors becoming the majority shareholder of the Company. The management of the Company believes the exercise is beneficial to the Company in the long run, as it will substantially enhance the Company’s financial position, and offer the opportunity to leverage off the expertise of a very seasoned and well connected group of international professional investors and managers. The Investors have stated that they intend to explore opportunities for the Group in the acquisition of strategic, possible controlling, stakes in companies with strong cash flow in growth sectors such as the consumer, industrial, technology, media and telecommunications business. They also intend to bring in financial investors and raise capital for the Company to capture sizeable investment opportunities. Negotiations with potential acquisition targets, including a Hong Kong based distributor of internationally known garment machinery, and discussions with prospective professional financial investors are in progress. The management of the Company believes that these plans, if materialise, will help to strengthen the overall financial position and diversify the Company from its cyclical steel trading business.

Furthermore, China announced the RMB appreciation on 21st July 2005. China is a complete steel import country, so at present the RMB appreciation is favorable to the steel industry. The advantage of the Company steel import resource as well as the sale in domestic market will efficiently decrease the cost of import steel, and achieve more gross margin.

Recently, PRC Central Government has announced “the Steel Industry Development Policy”. China will designedly become a great steel country, and the next ten years will be the golden times of the steel industry. We believe that the austerity program and the standardization of the steel market would help the Group to shakeout smaller competitors with no distinct competitive advantages.

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

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

As at 30th June 2005, the interests and short positions of the Directors and chief executives of the Company and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or (c) were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors, were as follows:

Long positions in the Shares and underlying shares of the Company

Name	Nature of interest	Attributable interest to the director	Number of shares and approximate % of shareholding (Note 1)		Number of options (Note 6)	Aggregate interest
Mr. Andrew Cho Fai Yao	— Corporate interest held by TN (Note 2)	deemed interest (indirectly)	163,367,600	(10.23%)	—	163,367,600
	— Corporate interest held by Huge Top (Note 3)	more than one-third (indirectly)	159,811,344	(10.01%)	—	159,811,344
	— Corporate interest held by VSC BVI (Note 4a)	through Huge Top (indirectly)	301,026,000	(18.85%)	—	301,026,000
	— Corporate interest held by VSC BVI (Note 4b)	through Huge Top (indirectly)	1,596,887,805	(100%)	—	1,596,887,805
	— Corporate interest held by Right Action (Note 5)	100% (directly)	102,400,000	(6.41%)	—	102,400,000
	— Personal interest (Note 6)	100% (directly)	—	—	5,000,000	5,000,000
			<u>2,323,492,749</u>	<u>(145.50%)</u>	<u>5,000,000</u>	<u>2,328,492,749</u>
Mr. Desmond Hay Ching Fu	— Personal interest (Note 6)	100% (directly)	—	—	11,750,000	11,750,000

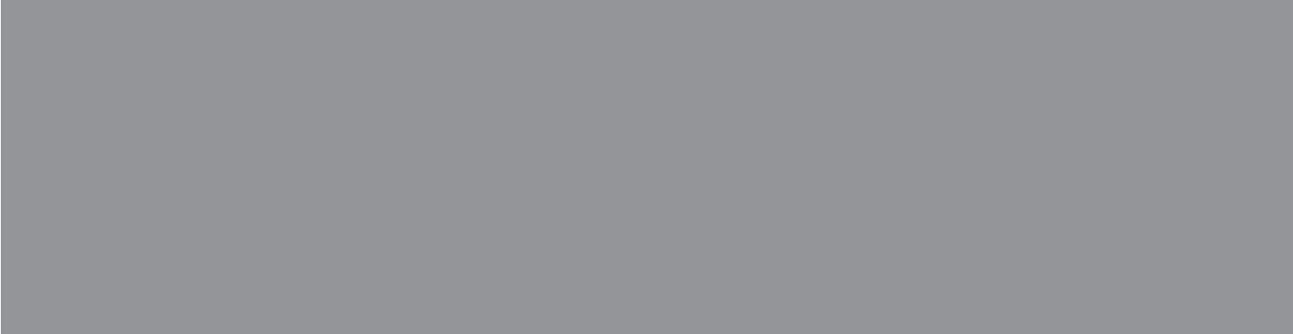
Notes:

1. These shares are the ordinary shares ("Shares") of HK\$0.10 each in the issued share capital of the Company.
2. As at 30th June 2005, TN Development Limited ("TN") owns 163,367,600 Shares. Van Shung Chong (B.V.I.) Limited ("VSC BVI") owns 54% of the issued share capital of TN and Mr. Andrew Cho Fai Yao owns 10% of the issued share capital of TN. Mr. Andrew Cho Fai Yao is one of the two directors of TN. These interests of the aforesaid Director in the securities of the Company were corporate interests.

All Shares held by TN 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 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.

3. As at 30th June 2005, Huge Top Industrial Ltd. ("Huge Top") owns 159,811,344 Shares. Mr. Andrew Cho Fai Yao directly holds approximately 11.91% and indirectly through Perfect Capital International Corp. ("Perfect Capital") owns approximately 42.86% of the issued share capital of Huge Top and is entitled to exercise more than one-third of the voting power at general meetings of Huge Top. Mr. Andrew Cho Fai Yao owns the entire issued share capital of Perfect Capital. Mr. Andrew Cho Fai Yao is one of the two directors of Huge Top. These interests of the aforesaid Director in the securities of the Company were corporate interests.
- 4(a). As at 30th June 2005, VSC BVI owns 301,026,000 Shares and Huge Top owns approximately 47.05% of the issued share capital of Van Shung Chong Holdings Limited ("Van Shung Chong"). VSC BVI is a wholly-owned subsidiary of Van Shung Chong. Mr. Andrew Cho Fai Yao is one of the two directors of VSC BVI. These interests of the aforesaid Director in the securities of the Company were corporate interests.
- 4(b). VSC BVI has a deemed interest in 15,968,878 New Shares* by virtue of its interest as the underwriter (the "Underwriter") in the agreement dated 19th May 2005 (the "Underwriting Agreement") between the Company and the Underwriter relating to the underwriting and other arrangements in respect of the issue of the offer shares on the basis of one offer share for every New Share at the offer price at HK\$0.1566 (the "Open Offer"). As the Capital Reorganisation has not taken place yet as at 30th June 2005, the number of such New Shares are adjusted to show the number of the then issued shares of the Company, namely 1,596,887,805 Shares. Through his interest in Huge Top as described in 4(a) above, Mr. Andrew Cho Fai Yao is deemed to be interested in the 1,596,887,805 Shares. These interests of the aforesaid Director in the securities of the Company were corporate interests.

*New Share(s) share(s) of HK\$0.01 each in the share capital of the Company upon the capital reorganisation of the Company involving the share consolidation, the capital reduction, the share premium reduction and the share restoration (the "Capital Reorganisation") becoming effective.

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5. As at 30th June 2005, Right Action Offshore Inc. ("Right Action") owns 102,400,000 Shares. 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.
 6. The interests of the Directors in the share options of the Company are separately disclosed in the section headed "Share Option Scheme" below.

For the three months ended 30th June 2005, the Company had complied the Model Code 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 2005, 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 any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (include interests and short positions which they are taken or deemed to have under provisions of SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange as referred in Rules 5.46 to 5.67 of the GEM Listing Rules.

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

As at 30th June 2005, so far as is known to the Directors and chief executives of the Company, the following persons (other than the Directors and chief executives of the Company whose interests were disclosed above) had an interest or short position in the Shares and underlying shares of the Company which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV 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 member of the Group together with particulars of any options in respect of such capital:

Long positions

Name	Nature of interest	Number of shares and approximate % of shareholding		Notes
Substantial shareholders of the Company				
VSC BVI	— directly	301,026,000	(18.85%)	
	— directly (deemed interest through VSC BVI acting as the Underwriter to the Open Offer)	1,596,887,805	(100%)	
	— indirect deemed interest through TN	163,367,600	(10.23%)	
		<u>2,061,281,405</u>	<u>(129.08%)</u>	1(a) & 1(b)
Van Shung Chong	— indirectly through VSC BVI	301,026,000	(18.85%)	
	— indirectly through VSC BVI (deemed interest through VSC BVI acting as the Underwriter to the Open Offer)	1,596,887,805	(100%)	
	— indirect deemed interest through TN	163,367,600	(10.23%)	
		<u>2,061,281,405</u>	<u>(129.08%)</u>	1(a) & 1(b) & 2(a) & 2(b)

Name	Nature of interest	Number of shares and approximate % of shareholding		Notes
Huge Top	— directly	159,811,344	(10.01%)	
	— indirectly through VSC BVI	301,026,000	(18.85%)	
	— indirectly through VSC BVI (deemed interest through VSC BVI acting as the Underwriter to the Open Offer)	1,596,887,805	(100%)	
	— indirect deemed interest through TN	163,367,600	(10.23%)	
		<u>2,221,092,749</u>	<u>(139.09%)</u>	1(a) & 1(b), 2(a) & 2(b) & 3(a) & 3(b)
Perfect Capital	— indirectly through Huge Top	159,811,344	(10.01%)	
	— indirectly through VSC BVI	301,026,000	(18.85%)	
	— indirectly through VSC BVI (deemed interest through VSC BVI acting as the Underwriter to the Open Offer)	1,596,887,805	(100%)	
	— indirect deemed interest through TN	163,367,600	(10.23%)	
		<u>2,221,092,749</u>	<u>(139.09%)</u>	1(a) & 1(b), 2(a) & 2(b) & 3(a) & 3(b)

Name	Nature of interest	Number of shares and approximate % of shareholding		Notes
Ms. Miriam Che Li Yao	— indirect deemed interest through Huge Top	159,811,344	(10.01%)	
	— indirect deemed interest through VSC BVI	301,026,000	(18.85%)	
	— indirect deemed interest through VSC BVI (deemed interest through VSC BVI acting as the Underwriter to the Open Offer)	1,596,887,805	(100%)	
	— indirect deemed interest through TN	163,367,600	(10.23%)	
		<u>2,221,092,749</u>	<u>(139.09%)</u>	1(a) & 1(b), 2(a) & 2(b), 3(a) & 3(b) & 4(a) & 4(b)
TN	— directly	163,367,600	(10.23%)	5
Mr. Tsang Moses Kwok Tai	— directly	5,908,045,900	(369.97%)	6
	— indirect deemed interest through Oboe Development Trading Limited	50,940,000	(3.19%)	
		<u>5,958,985,900</u>	<u>(373.16%)</u>	6 & 7
NASAC	— directly	13,249,042,100	(829.68%)	8
NASA	— indirect deemed interest through NASAC	13,249,042,100	(829.68%)	8 & 9
API	— indirect deemed interest through NASAC	13,249,042,100	(829.68%)	8, 9 & 10
Other shareholder of the Company				
Right Action	— directly	102,400,000	(6.41%)	

Notes:

- 1(a). VSC BVI owns 54% of the share capital of TN and is deemed to be interested in the 163,367,600 Shares held by TN as at 30th June 2005. VSC BVI directly owns 301,026,000 Shares as at 30th June 2005. VSC BVI is therefore directly and indirectly interested in an aggregate of 464,393,600 Shares.
- 1(b). VSC BVI has a deemed interest in 15,968,878 New Shares by virtue of its interest as the Underwriter in the Underwriting Agreement. As the Capital Reorganisation has not taken place yet as at 30th June 2005, the number of such New Shares are adjusted to show the number of the then issued shares of the Company, namely 1,596,887,805 Shares.
- 2(a). Van Shung Chong owns the entire issued share capital of VSC BVI, Van Shung Chong is therefore deemed to be interested in an aggregate of 464,393,600 Shares.
- 2(b). VSC BVI has a deemed interest in 15,968,878 New Shares by virtue of its interest as the Underwriter in the Underwriting Agreement. As the Capital Reorganisation has not taken place yet as at 30th June 2005, the number of such New Shares are adjusted to show the number of the then issued shares of the Company, namely 1,596,887,805 Shares. Through its interest in VSC BVI as described in 2(a) above, Van Shung Chong is deemed to be interested in the 1,596,887,805 Shares.
- 3(a). Perfect Capital owns approximately 42.86% of the issued share capital of Huge Top as at 30th June 2005. Huge Top is beneficially interested in approximately 47.05% of the issued share capital of Van Shung Chong as at 30th June 2005 and Perfect Capital and Huge Top are therefore deemed to be interested in the 163,367,600 Shares held by TN and the 301,026,000 Shares held by VSC BVI as at 30th June 2005. As at the same date, Huge Top also directly owns 159,811,344 Shares. Huge Top is therefore directly and indirectly interested in an aggregate of 624,204,944 Shares, and Perfect Capital is indirectly interested in the same aggregate interests.
- 3(b). VSC BVI has a deemed interest in 15,968,878 New Shares by virtue of its interest as the Underwriter in the Underwriting Agreement. As the Capital Reorganisation has not taken place yet as at 30th June 2005, the number of such New Shares are adjusted to show the number of the then issued shares of the Company, namely 1,596,887,805 Shares. Through its interest in Van Shung Chong and indirectly in VSC BVI as described in 3(a) above, Huge Top is deemed to be interested in the 1,596,887,805 Shares. Through its interest in Huge Top and indirectly Van Shung Chong and VSC BVI as described in 3(a) above, Perfect Capital is deemed to be interested in the 1,596,887,805 Shares.
- 4(a). As at 30th June 2005, Ms. Miriam Che Li Yao is one of the two directors for TN and Huge Top while the remaining director of these two companies is Mr. Andrew Cho Fai Yao who is the brother of Ms. Miriam Che Li Yao. Ms. Miriam Che Li Yao is therefore through Huge Top indirectly interested in an aggregate of 624,204,944 Shares.
- 4(b). VSC BVI has a deemed interest in 15,968,878 New Shares by virtue of its interest as the Underwriter in the Underwriting Agreement. As the Capital Reorganisation has not taken place yet as at 30th June 2005, the number of such New Shares are adjusted to show the number of the then issued shares of the Company, namely 1,596,887,805 Shares. Through her interest in Huge Top as described in 4(a) above, Ms. Miriam Che Li Yao is deemed to be interested in the 1,596,887,805 Shares.
5. All Shares held by TN 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 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.

6. As at 30th June 2005, Mr. Tsang Moses Kwok Tai is directly interested in 19,693,486 New Shares and a further 39,386,973 New Shares which may fall to be issued if the convertible bonds are converted at the initial conversion price of HK\$0.1566. Accordingly, Mr. Tsang Moses Kwok Tai is directly interested in a total of 59,080,459 New Shares. As the Capital Reorganisation has not taken place yet as at 30th June 2005, the number of shares in the Company in which Mr. Tsang Moses Kwok Tai is directly interested is adjusted to show the number of the then issued shares of the Company, namely 5,908,045,900 Shares.
7. As at 30th June 2005, Mr. Tsang Moses Kwok Tai is directly interested in 5,908,045,900 Shares (as described in note 6 above). In addition, 50,940,000 Shares is directly owned by Oboe Development Trading Limited which is wholly owned by Mr. Tsang Moses Kwok Tai. Mr. Tsang Moses Kwok Tai is therefore deemed to be interested in an aggregate of 5,958,985,900 Shares.
8. As at 30th June 2005, North Asia Strategic Acquisition Corp. ("NASAC") is directly interested in 44,163,474 New Shares and a further 88,326,947 New Shares which may fall to be issued if the convertible bonds are converted at the initial conversion price of HK\$0.1566. Accordingly, NASAC is directly interested in a total of 132,490,421 New Shares. As the Capital Reorganisation has not taken place yet as at 30th June 2005, the number of shares in the Company in which NASAC is directly interested is adjusted to show the number of the then issued shares of the Company, namely 13,249,042,100 Shares.
9. As at 30th June 2005, North Asia Strategic Advisors ("NASA") holds the single voting participating share of NASAC and is therefore deemed to be interested in 13,249,042,100 Shares.
10. As at 30th June 2005, Ajia Partners Inc. ("API") wholly owns all the shares in NASA, which in turn holds the single voting participating share of NASAC. API is therefore deemed to be interested in 13,249,042,100 Shares.

Save as disclosed above, as at 30th June 2005, the Directors and the chief executives of the Company were not aware of any other person (other than the Directors and chief executives of the Company whose interests were disclosed above) who had an interest or short position in the Shares and underlying shares of the Company which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV 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 member of the Group together with particulars of any options in respect of such capital.

SHARE OPTION SCHEME

Under the terms of the Company's share option scheme approved by the shareholders on 13th April 2000 (the "Old Scheme"), the Board 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 and employees during the three months ended 30th June 2005 under the Old Scheme were as follows:

Name	Date of grant	Price per Share	Vesting period	Exercise period	Number of options		
					Beginning of period '000	Lapsed during the period '000	End of period '000
<i>Directors:</i>							
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
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
Sub-total					<u>16,750</u>	<u>—</u>	<u>16,750</u>
<i>Employees:</i>							
In aggregate	3rd July 2000	HK\$0.360	3rd July 2000 to 30th September 2001	1st October 2001 to 12th April 2010	12,100	(500)	11,600
In aggregate	7th November 2000	HK\$0.485	7th November 2000 to 7th November 2001	8th November 2001 to 12th April 2010	25,900	(1,500)	24,400
Sub-total					<u>38,000</u>	<u>(2,000)</u>	<u>36,000</u>
Total of Old Scheme					<u>54,750</u>	<u>(2,000)</u>	<u>52,750</u>

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. All the above-mentioned options are unlisted and represent physically settled equity derivatives. Up to 14th July 2005, no options have been granted pursuant to the New Scheme. With reference to the Company's announcement in respect of the poll results of the Special General Meeting held on 14th July 2005, an ordinary resolution proposing the cancellation of all the Company's options was passed.

COMPETING INTERESTS

Mr. David Michael Faktor ("Mr. Faktor"), a non-executive Director resigned on 9th August 2005, is the director of Stemcor Holdings Limited whose business is principally engaged in international steel trading. Mr. Andrew Cho Fai Yao is the executive Director, and also the chairman of Van Shung Chong and Van Shung Chong is also engaged in steel trading business. The Directors believe that there is a risk that such business may compete with those of the Group. However, the Directors are also of the view that the invaluable experience of Mr. Faktor and Mr. Andrew Cho Fai 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 is 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 2005.

CORPORATE GOVERNANCE CODE COMPLIANCE

The Company is in the process of reviewing its corporate governance practice and will report in its interim results announcement on the compliance of the Code on Corporate Governance Practices.

AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") with written terms of reference based upon the guidelines recommended by the Hong Kong Institute of Certified Public Accountants. The duties of the Audit Committee include reviewing the Company's annual reports and quarterly financial reports and providing advice and comments thereon to the Board. The Audit Committee is also responsible for reviewing and supervising the Company's financial reporting and internal control procedures. The Audit Committee comprises three independent non-executive Directors, namely Mr. Philip King Huen Ma, Mr. Kenny King Ching Tam and Mr. Kwan Chi Ping Edgar*. One of the members of the Audit Committee is an appropriate professional accounting expert as required under Rule 5.08 of the GEM Listing Rules. These unaudited accounts for the three months ended 30th June 2005 of the Company now reported on have been reviewed by the Audit Committee.

* On 9th August 2005, Mr. Kwan Chi Ping Edgar has been appointed as independent non-executive Director. Mr. Kwan Chi Ping Edgar is also appointed as a member of the audit committee in place of Mr. Kennedy Ying Ho Wong on the same day.

On behalf of the Board,
Desmond Hay Ching Fu
Executive Director

Hong Kong, 12th August 2005

As at the date of this report, the Board comprises Mr. Göran Sture Malm (Chairman), Mr. Chow Savio Sing Nam (Chief Executive Officer), Mr. Andrew Cho Fai Yao, Mr. Desmond Hay Ching Fu, Mr. Cho Henry Kim (being the executive directors), Mr. Philip King Huen Ma, Mr. Kwan Chi Ping Edgar and Mr. Kenny King Ching Tam (being the independent non-executive Directors).

