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## IMPORTANT

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If you are in any doubt about any aspect of this circular or about the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or otherwise transferred all your shares in iSteelAsia Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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*iSteelAsia*  
**iSteelAsia Holdings Limited**  
(亞鋼集團有限公司)\*  
(incorporated in Bermuda with limited liability)  
(Stock code: 8080)

**North Asia Strategic  
Acquisition Corp.**  
(incorporated in the Cayman Islands  
with limited liability)  
&  
**Mr. Moses Kwok Tai Tsang**

**CAPITAL REORGANISATION,  
OPEN OFFER,  
SUBSCRIPTION OF NEW SHARES  
AND  
CONVERTIBLE BONDS BY THE AJIA PARTIES,  
APPLICATION FOR WHITEWASH WAIVER  
AND  
PROPOSED CHANGE OF COMPANY NAME**

Financial adviser to iSteelAsia Holdings Limited

**CASH**  
**Celestial Capital Limited**

Financial adviser to the Ajia Parties

 **SOMERLEY LIMITED**

**Independent financial adviser to the Independent Board Committee  
and the Independent Shareholders**



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A letter from the Independent Board Committee is set out on page 43 of this circular. A letter from Access Capital Limited containing its advice to the Independent Board Committee is set out on pages 44 to 65 of this circular.

A notice convening the SGM of the Company to be held at 3:00 p.m. (or immediately after the conclusion or adjournment of the annual general meeting of the Company) on Thursday, 14 July 2005 at Rooms 4902-8, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong is set out on pages 124 to 128 of this circular. A form of proxy for use at the SGM is enclosed with this circular. Whether or not you intend to attend the meeting, you are requested to complete the accompanying form of proxy and return it in accordance with the instructions printed thereon as soon as possible to Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, and in any event not less than 48 hours before the time appointed for the holding of the SGM. Completion and return of a form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting should you so wish.

*This circular will remain on the "Latest Company Announcements" page of the GEM website at [www.hkgem.com](http://www.hkgem.com) for at least 7 days from the date of its posting and on the website of the Company at [www.isteelasia.com](http://www.isteelasia.com).*

\* For identification purpose only

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## CHARACTERISTICS OF GEM

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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](http://www.hkgem.com) in order to obtain up-to-date information on GEM-listed issuers.

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## CONTENTS

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	<i>Page</i>
<b>Expected Timetable</b> .....	iii
<b>Definitions</b> .....	1
<b>Letter from the iSteelAsia Board</b>	
Introduction .....	9
Proposed Capital Reorganisation .....	11
Proposed Open Offer .....	16
Warning of the Risk of Dealing in the Shares .....	19
Listings and Dealings .....	19
Underwriting Arrangement .....	20
The Subscription .....	22
The Subscription Agreement .....	22
Termination of the Proposals .....	30
Reasons for the Open Offer and the Subscription and Use of Proceeds .....	31
Effects of the Proposals .....	32
Information on the Ajia Group .....	36
Proposed Changes to the iSteelAsia Board .....	38
Intentions of the Ajia Parties for the Future Developments of the iSteelAsia Group .....	40
Proposed Change of Company Name .....	41
SGM .....	42
Recommendations .....	42
General .....	42
<b>Letter from the Independent Board Committee</b> .....	43
<b>Letter from Access Capital</b> .....	44
<b>Appendix I — Financial Information on the iSteelAsia Group</b> .....	66
<b>Appendix II — General Information</b> .....	107
<b>Notice of SGM</b> .....	124

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## EXPECTED TIMETABLE

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2005

Latest time for lodging forms of proxy in respect of SGM .....	3:00 p.m. on Tuesday, 12 July
SGM .....	3:00 p.m. on Thursday, 14 July
Effective date of the Capital Reorganisation .....	Friday, 15 July
Announcement of results of SGM to be published .....	Friday, 15 July
First day of free exchange of the existing share certificates for the New Share certificates .....	Friday, 15 July
First day of operation of odd lot facility .....	Friday, 15 July
Temporary counter for trading in the New Shares in board lots of 20 New Shares (in the form of existing share certificates) opens .....	9:30 a.m. on Friday, 15 July
Existing counter for trading in the Shares (in the form of existing share certificates) in board lots of 2,000 Shares temporarily closes .....	9:30 a.m. on Friday, 15 July
Last day of dealing in the New Shares on a cum-entitlement basis .....	Friday, 15 July
Commencement of dealings of the New Shares on an ex-entitlement basis .....	Monday, 18 July
Latest time for lodging transfers of the New Shares to be entitled for the Open Offer .....	4:00 p.m. on Tuesday, 19 July
Book close dates (both dates inclusive) .....	Wednesday, 20 July to Thursday, 21 July
Record date .....	Thursday, 21 July
Despatch of Prospectus Documents .....	Thursday, 21 July
Existing counter for trading in the New Shares in board lots of 2,000 New Shares (in the form of new certificates) re-opens .....	9:30 a.m. on Friday, 29 July

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## EXPECTED TIMETABLE

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2005

Parallel trading in the New Shares (in the form of new share certificates and existing share certificates) commences .....	9:30 a.m. on Friday, 29 July
Latest time for receiving acceptance for the Open Offer and Open Offer Closes .....	4:00 p.m. on Thursday, 4 August
Announcement of results of the Open Offer to be published .....	Friday, 5 August
Distribution of New Share certificates for the Offer Shares .....	Monday, 8 August
Refund cheques in respect of wholly or partially unsuccessful applications for excess Offer Shares .....	Monday, 8 August
Completion of the Subscription .....	Monday, 8 August
Commencement of dealings in the Offer Shares and the Subscription Shares .....	Wednesday, 10 August
Temporary counter for trading in the New Shares in board lots of 20 New Shares (in the form of existing share certificates) closes .....	close of business on Friday, 19 August
Parallel trading in the New Shares (in the form of new share certificates and existing share certificates) ends .....	close of business on Friday, 19 August
Last day of operation of odd lot facility .....	close of business on Friday, 19 August
Last day of free exchange of the existing share certificates for the New Share certificates .....	Friday, 26 August
Dates or deadlines specified in this circular for events in the timetable for (or otherwise in relation to) the Proposals are indicative only and may be varied by agreement between iSteelAsia and the Ajia Parties. Any consequential changes to the expected timetable will be published by way of public announcement.	

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## DEFINITIONS

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*In this circular, the following expressions have the following meanings, unless the context requires otherwise:*

“Access Capital”	Access Capital Limited, a licensed corporation for type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, the independent financial adviser to the Independent Board Committee and the Independent Shareholders to advise on the terms of the Open Offer, the Subscription and the Whitewash Waiver
“Ajia Group”	API, NASA, NASAC, Mr. Tsang and all companies controlled from time to time by API (excluding iSteelAsia)
“Ajia Parties”	NASAC and Mr. Tsang
“Announcement”	the joint announcement dated 19 May 2005 issued by iSteelAsia and the Ajia Parties in relation to the Proposals
“API”	Ajia Partners Inc., a company incorporated in the Cayman Islands
“associates”	has the meaning ascribed to it in the GEM Listing Rules
“Board”	the board of directors of the relevant company from time to time
“Capital Reduction”	the proposed reduction of the issued share capital of iSteelAsia by way of the 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 will be reduced from HK\$10.0 each to HK\$0.01 each
“Capital Reorganisation”	the capital reorganisation of iSteelAsia involving the Share Consolidation, the Capital Reduction, the Share Premium Reduction and the Share Restoration
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC

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## DEFINITIONS

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“Companies Act”	the Companies Act 1981 of Bermuda
“Concert Parties”	in relation to relevant party(ies), a group of persons acting in concert as defined under the Takeovers Code
“connected person(s)”	has the meanings given to it in the GEM Listing Rules
“Consolidated NAV”	the net asset value of i-AsiaB2B Group on a consolidated basis, determined in a manner consistent with that in which the audited accounts of the Existing Business were prepared and in any event in accordance with the generally accepted accounting principles in Hong Kong
“Consolidated Share(s)”	the share(s) of HK\$10.0 each in the share capital of iSteelAsia arising from the Share Consolidation
“control”	for the purposes of the Subscription Agreement and the Deed of Indemnity, means in respect of any company (i) the direct or indirect legal or beneficial ownership of more than 50% of the voting capital of such company; (ii) the ability to direct the casting of more than 50% of the votes exercisable at general meetings of such company on ordinary matters; or (iii) the right to appoint or remove those directors of such company who hold more than 50% of the voting rights at meetings of such company’s board of directors on ordinary matters; and “controlled” and “controls” shall be construed accordingly
“Conversion Shares”	up to 127,713,920 New Shares which may fall to be issued if the principal amount of the Convertible Bonds is converted in full at the initial conversion price of HK\$0.1566 per New Share
“Convertible Bonds”	convertible bonds, with face value of HK\$20.0 million, to be issued by iSteelAsia to the Ajia Parties pursuant to the Subscription Agreement, which are convertible into New Shares at an initial conversion price of HK\$0.1566 per Conversion Share (subject to adjustment)
“Deed of Indemnity”	a conditional guarantee and indemnity deed dated 19 May 2005 and made amongst Huge Top, Mr. Andrew Yao, iSteelAsia and the Ajia Parties in conjunction with the Subscription

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## DEFINITIONS

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“Enlarged Share Capital”	the enlarged issued share capital of iSteelAsia after the Capital Reorganisation and the completion of the Open Offer and Subscription but before any conversion of the Convertible Bonds
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“Existing Business”	<p>collectively:</p> <ul style="list-style-type: none"><li>(i) the business of the iSteelAsia Group immediately prior to completion of the Proposals;</li><li>(ii) all business of the iSteelAsia Group from and after completion of the Proposals that is a continuation or derivative or the proceeds of, or is based on, the business described in (i) above; and</li><li>(iii) all business of the i-AsiaB2B Group at any time, whether before or after completion of the Proposals</li></ul>
“Further Enlarged Share Capital”	the enlarged issued share capital of iSteelAsia after the implementation of the Capital Reorganisation and the completion of the Open Offer and Subscription and after conversion in full of the Convertible Bonds
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Committee”	the listing sub-committee of the board of the Stock Exchange with responsibility for GEM
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China



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## DEFINITIONS

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“Huge Top”	Huge Top Industrial Ltd., a company incorporated in the British Virgin Islands of which Mr. Andrew Yao is a controlling shareholder owning directly and indirectly an aggregate of 54.77% of the entire issued share capital thereof. As at the Latest Practicable Date, Huge Top directly and indirectly owned an aggregate of 624,204,944 Shares, which represented approximately 39.09% of the issued capital of iSteelAsia
“i-AsiaB2B Group”	i-AsiaB2B Group Limited (a wholly-owned subsidiary of iSteelAsia), which is an investment holding company, and its subsidiaries, which is principally engaged in the Existing Business. i-AsiaB2B Group Limited is a principal subsidiary of the iSteelAsia Group
“Independent Board Committee”	the independent board committee formed by the independent non-executive Directors, namely Mr. Kennedy Ying Ho Wong and Mr. Kenny King Ching Tam to advise the Independent Shareholders on the terms of the Open Offer, the Subscription and the Whitewash Waiver
“Independent Shareholders”	Shareholders other than VSC BVI, TN, Huge Top, Right Action Offshore Inc. and Mr. Tsang, their respective associates and Concert Parties, and any other parties interested or involved in the Proposals (other than only by virtue of their interest in assured allotments pursuant to the Open Offer)
“Initial Announcement”	the announcement dated 4 March 2005 issued by iSteelAsia in relation to a possibility that a change of control in iSteelAsia
“iSteelAsia” or “Company”	iSteelAsia Holdings Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on GEM
“iSteelAsia Board”	the board of iSteelAsia Directors
“iSteelAsia Director(s)” or “Director(s)”	director(s) of iSteelAsia
“iSteelAsia Group” or “Group”	iSteelAsia and its subsidiaries

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## DEFINITIONS

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“Latest Practicable Date”	17 June 2005 being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“Mr. Andrew Yao”	Mr. Andrew Cho Fai Yao, an executive director and chairman of iSteelAsia and Van Shung Chong
“Mr. Cheng”	Mr. Cheng Wyman Paul
“Mr. Chiang”	Mr. Chiang Timothy Ta Kuang
“Mr. Cho”	Mr. Cho Henry Kim
“Mr. Chow”	Mr. Chow Savio Sing Nam
“Mr. Malm”	Mr. Göran Sture Malm
“Mr. Tsang”	Mr. Tsang Moses Kwok Tai
“NASA”	North Asia Strategic Advisors, a company incorporated in the Cayman Islands
“NASAC”	North Asia Strategic Acquisition Corp., a company incorporated in the Cayman Islands
“New Share(s)”	share(s) of HK\$0.01 each in the share capital of iSteelAsia upon the Capital Reorganisation becoming effective
“Offer Price”	the subscription price of HK\$0.1566 per Offer Share pursuant to the Open Offer
“Offer Shares”	New Shares to be issued under the Open Offer
“Open Offer”	the issue of the Offer Shares on the basis of one Offer Share for every New Share held by the Qualifying Shareholders on the Record Date at the Offer Price
“Options”	the 52,750,000 outstanding options granted by iSteelAsia pursuant to the share option scheme approved by the Shareholders on 13 April 2000, each conferring on the grantee thereof the right to subscribe for one Share at exercise prices of either HK\$0.36 or HK\$0.485 (subject to adjustment)

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## DEFINITIONS

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“Overseas Shareholder(s)”	Shareholder(s) whose name(s) appear(s) on the register of members of iSteelAsia on the Record Date and whose registered address(es) on that date is/are in (a) place(s) outside Hong Kong
“Posting Date”	the date on which the Prospectus Documents are despatched to the Qualifying Shareholders
“Potential Claim”	a potential cost, claim, payable, liability, contingent liability, commitment, non-adjusting event against and/or of the Existing Business, i-AsiaB2B Group or any member of i-AsiaB2B Group existing as at or at any time prior to 30 September 2007 that under generally accepted accounting principles should be disclosed in the notes to audited accounts of the Existing Business if existing on either of (a) 31 March 2006, (b) 31 March 2007, and (c) 30 September 2007 (each an “Existing Business Accounts Date”), (i) whether or not such date is an Existing Business Accounts Date, (ii) whether or not actually disclosed in the notes to audited accounts of any Existing Business, and (iii) whether or not then quantifiable
“Proposals”	the Capital Reorganisation, the Open Offer and the Subscription together with the Whitewash Waiver and related matters
“Prospectus”	a prospectus containing details of the Open Offer to be issued by iSteelAsia
“Prospectus Documents”	the Prospectus, the assured allotment letter and the excess application form
“Qualifying Shareholder(s)”	Shareholder(s) other than those Overseas Shareholder(s) whom the iSteelAsia Directors, after making relevant enquiry as required under the GEM Listing Rules, consider their exclusion from the Open Offer to be necessary or expedient on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place

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## DEFINITIONS

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“Record Date”	being 21 July 2005, the date by reference to which entitlements under the Open Offer will be determined
“SFC”	the Securities and Futures Commission
“SFO”	the Securities and Futures Ordinance (Chapter 571 of Laws of Hong Kong)
“SGM”	a special general meeting of iSteelAsia to be convened and held for the consideration and approval of, among others, the Capital Reorganisation, the Open Offer, the Subscription and the grant of the Whitewash Waiver
“Share(s)”	existing share(s) of HK\$0.10 each in the share capital of iSteelAsia
“Share Consolidation”	the proposed consolidation of every 100 issued and unissued Shares into one Consolidated Share
“Share Premium Reduction”	the proposed cancellation of the entire amount standing to the credit of the share premium account of iSteelAsia as at 31 March 2005, which amounted to approximately HK\$11.1 million
“Share Restoration”	the reduction of the nominal value of all the unissued Consolidated Shares of HK\$10.0 each to HK\$0.01 each within iSteelAsia’s authorised share capital, by way of (i) cancellation of all the authorised but unissued share capital of iSteelAsia, including the authorised but unissued share capital arising from the Capital Reduction, and (ii) an increase in the authorised share capital of iSteelAsia back to its original amount of HK\$400,000,000 by the creation of the requisite number of New Shares of HK\$0.01 each
“Shareholder(s)”	holder(s) of the Share(s) or, the Consolidated Share(s) or the New Share(s) (as the case may be)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription by the Ajia Parties of the Subscription Shares and the Convertible Bonds pursuant to the Subscription Agreement

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## DEFINITIONS

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“Subscription Agreement”	the conditional subscription agreement dated 19 May 2005 entered into between iSteelAsia, NASAC, Mr. Tsang and Huge Top in relation to the Subscription
“Subscription Price”	the subscription price of HK\$0.1566 per Subscription Share pursuant to the Subscription Agreement
“Subscription Shares”	a total of 63,856,960 New Shares to be issued to the Ajia Parties as subscriber pursuant to the Subscription Agreement
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“TN”	TN Development Limited, a company incorporated in the British Virgin Islands
“Underwriting Agreement”	the agreement dated 19 May 2005 between iSteelAsia and the Underwriter relating to the underwriting and other arrangements in respect of the Open Offer
“Underwritten Shares”	based on the number of Shares in issue as at the Latest Practicable Date, a maximum of 13,486,118 Offer Shares (being all the Offer Shares less those Offer Shares which will be allotted to VSC BVI and which have been undertaken to be subscribed by it)
“Van Shung Chong”	Van Shung Chong Holdings Limited, a company whose shares are listed on the Main Board of the Stock Exchange
“VSC BVI” or “Underwriter”	Van Shung Chong (B.V.I.) Limited, a wholly-owned subsidiary of Van Shung Chong and a substantial Shareholder holding approximately 18.9% of the issued share capital of iSteelAsia as at the Latest Practicable Date and the underwriter to the Open Offer
“Whitewash Waiver”	a waiver of the obligation of the Ajia Parties to make a mandatory offer for all the New Shares under Rule 26 of the Takeovers Code as a result of the issue of the Subscription Shares to the Ajia Parties
“HK\$”	Hong Kong Dollars

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## LETTER FROM THE iSTEELASIA BOARD

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*iSteelAsia*

**iSteelAsia Holdings Limited**

**(亞鋼集團有限公司)\***

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 8080)**

*Executive Directors:*

Mr. Andrew Cho Fai Yao (*Chairman*)

Mr. Desmond Hay Ching Fu

*Non-Executive Director:*

Mr. David Michael Faktor

*Independent Non-Executive Directors:*

Mr. Philip King Huen Ma

Mr. Kennedy Ying Ho Wong

Mr. Kenny King Ching Tam

*Registered Office:*

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

*Head Office and Principal*

*Place of Business:*

Room 4902-8, Hopewell Centre

183 Queen's Road East

Wanchai, Hong Kong

20 June 2005

*To the Shareholders (and, for information only, the holders of Options)*

Dear Sir or Madam,

**CAPITAL REORGANISATION,  
OPEN OFFER,  
SUBSCRIPTION OF NEW SHARES  
AND  
CONVERTIBLE BONDS BY THE AJIA PARTIES,  
APPLICATION FOR WHITEWASH WAIVER  
AND  
PROPOSED CHANGE OF COMPANY NAME**

**INTRODUCTION**

On 19 May 2005, the iSteelAsia Board and the Ajia Parties announced that agreement has been reached for Proposals for the expansion of the capital base of iSteelAsia and the introduction of the Ajia Parties as the new controlling shareholder of iSteelAsia. The Proposals, which are subject to the conditions set out below, include the following main components:

- (i) the Capital Reorganisation which will involve (a) a consolidation of every 100 existing Shares of HK\$0.10 each into 1 Consolidated Share of HK\$10.0; (b) a reduction in the par value of each issued Consolidated Share from HK\$10.0 each to HK\$0.01 by

\* For identification purpose only

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## LETTER FROM THE iSTEELASIA BOARD

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cancelling HK\$9.99 paid-up capital on each issued Consolidated Share; (c) the reduction of the nominal value of all the unissued Consolidated Shares of HK\$10.0 each to HK\$0.01 each within iSteelAsia's authorised share capital, by way of (i) cancellation of all the authorised but unissued share capital of iSteelAsia, including the authorised but unissued share capital arising from the Capital Reduction, and (ii) an increase in the authorised share capital of iSteelAsia back to its original amount of HK\$400,000,000 by the creation of the requisite number of New Shares of HK\$0.01 each; and (d) a reduction of the entire amount standing to the credit of the share premium account of iSteelAsia as at 31 March 2005;

- (ii) the Open Offer to raise approximately HK\$2.5 million (before expenses) on the basis of an assured allotment of one Offer Share for each New Share held by the Qualifying Shareholders on the Record Date at the Offer Price of HK\$0.1566 per Offer Share. Qualifying Shareholders will be able to apply for Offer Shares in excess of their assured allotments; and
- (iii) the Subscription of 63,856,960 New Shares by the Ajia Parties at a subscription price of HK\$0.1566 per New Share to raise approximately HK\$10 million and a further subscription of HK\$20 million nominal of non-interest bearing Convertible Bonds, convertible into 127,713,920 New Shares at an initial conversion price of HK\$0.1566 per Conversion Share.

The Capital Reorganisation is subject to, among other conditions, approval being obtained from Independent Shareholders at the SGM for the Open Offer, the Subscription and the Whitewash Waiver. The Open Offer and the Subscription are inter-conditional and subject to further conditions as set out below, including the grant of the Whitewash Waiver.

Van Shung Chong, through its wholly-owned subsidiary VSC BVI, currently holds 301,026,000 Shares (equivalent to 3,010,260 New Shares upon the Capital Reorganisation taking effect), representing approximately 18.9% of the existing issued share capital of iSteelAsia. VSC BVI has irrevocably undertaken to iSteelAsia to apply in full for its assured allotment under the Open Offer, amounting to 3,010,260 Offer Shares, and has agreed to underwrite the remainder of the Offer Shares. Depending on the taking up of the Offer Shares under the Open Offer by the Shareholders, the shareholding of VSC BVI in iSteelAsia would range from approximately 6.8% to 19.8% of the Enlarged Share Capital.

Mr. Philip King Huen Ma, an independent non-executive Director, is interested in approximately 0.47% of the issued non-voting preference shares of an investment company which in turn holds approximately 5.1% interest in API and of which Mr. Tsang is a controlling shareholder. Save as aforesaid, the Ajia Parties and their Concert Parties and respective associates are independent of and not connected with iSteelAsia and its connected persons. Save for Mr. Tsang's personal interests in 50,940,000 Shares and his 5% interest in TN which in turn holds 163,367,600 Shares, the Ajia Parties and their Concert Parties currently have no interest in the issued share capital or other securities of iSteelAsia. Immediately after completion of the

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## LETTER FROM THE iSTEELASIA BOARD

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Capital Reorganisation, the Open Offer and the issue of the Subscription Shares at completion of the Proposals but before any exercise of the conversion rights attaching to the Convertible Bonds, and on the assumption that there are no other changes in iSteelAsia's issued share capital after the Latest Practicable Date, the shareholding of the Ajia Parties and their Concert Parties in iSteelAsia is expected to be approximately 67.2%. As a result, an obligation to make a mandatory general offer on the part of the Ajia Parties will arise under the Takeovers Code, unless the Whitewash Waiver is obtained. If the Whitewash Waiver is not obtained, the Proposals will not become unconditional and will not proceed.

Mr. Andrew Yao, an executive Director of iSteelAsia, is involved in the Open Offer, the Subscription and the Whitewash Waiver and is an obligor under the Deed of Indemnity and Huge Top, a company controlled by Mr. Andrew Yao, is a warrantor in the Subscription Agreement and has given certain indemnities and undertakings in favour of iSteelAsia under the Deed of Indemnity. Mr. Andrew Yao is also deemed to have control in VSC BVI, the Underwriter to the Open Offer and is a substantial shareholder of iSteelAsia. Mr. Desmond Hay Ching Fu, an executive Director of iSteelAsia, is a salaried employee of iSteelAsia. Mr. Philip Ma, an independent non-executive Director, is beneficially interested in approximately 0.47% of the issued non-voting preference shares of an investment company which is in turn holds approximately 5.1% interest in API and of which Mr. Tsang is a controlling shareholder. They are therefore not considered to be independent for the purposes of the Proposals.

Mr. David Michael Faktor is only a non-executive iSteelAsia Director and is therefore not eligible under Rule 17.47(6)(a) of the GEM Listing Rules to act as a member of the Independent Board Committee. Mr. Kennedy Ying Ho Wong, and Mr. Kenny King Ching Tam, being independent non-executive iSteelAsia Directors, have been appointed as members of the Independent Board Committee to consider and advise the Independent Shareholders in relation to the Proposals. In connection therewith, Access Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the Proposals are in the interest of the Company and the Shareholders as a whole and whether the terms of the Open Offer, the Subscription and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned.

The purpose of this circular is to give you further information on the Capital Reorganisation, the Subscription and the Whitewash Waiver and give you notice of the SGM at which resolutions approving, amongst other things, the Capital Reorganisation, the Open Offer, the Subscription, the Whitewash Waiver and change of the Company's name will be proposed.

### **PROPOSED CAPITAL REORGANISATION**

iSteelAsia intends to put forward at the SGM resolution(s) to approve, subject to the conditions set out below, the Capital Reorganisation which involves:

- (a) the Share Consolidation whereby every 100 issued and unissued Shares of HK\$0.10 each will be consolidated into one Consolidated Share of HK\$10.0. Fractional Consolidated Shares will not be issued to the Shareholders but will be aggregated and sold for the benefit of iSteelAsia;



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## LETTER FROM THE iSTEELASIA BOARD

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- (b) the Capital Reduction pursuant to which the par value of each issued Consolidated Share of HK\$10.0 will be reduced to HK\$0.01 by cancelling paid-up capital to the extent of HK\$9.99 on each issued Consolidated Share;
- (c) the reduction of the nominal value of all the unissued Consolidated Shares of HK\$10.0 each to HK\$0.01 each within iSteelAsia's authorised share capital, by way of (i) cancellation of all the authorised but unissued share capital of iSteelAsia, including the authorised but unissued share capital arising from the Capital Reduction, and (ii) an increase in the authorised share capital of iSteelAsia back to its original amount of HK\$400,000,000 by the creation of the requisite number of New Shares of HK\$0.01 each; and
- (d) the Share Premium Reduction pursuant to which the entire amount standing to the credit of the share premium account of iSteelAsia as at 31 March 2005 will be reduced so as to be used to set off against the accumulated losses of iSteelAsia in a manner permitted by the laws of Bermuda and the bye-laws of iSteelAsia.

The credit arising from the Capital Reduction, which is expected to be approximately HK\$159.5 million, and from the Share Premium Reduction, which is expected to be approximately HK\$11.1 million, will be transferred to the contributed surplus account of iSteelAsia which will be used to set off against the accumulated losses of iSteelAsia in the manner permitted by the laws of Bermuda and the bye-laws of iSteelAsia. Based on the audited financial statements of iSteelAsia as at 31 March 2005, the accumulated losses of iSteelAsia as at 31 March 2005 amounted to approximately HK\$161.6 million.

Upon the Capital Reorganisation taking effect but before the Open Offer and the Subscription, the authorised share capital of iSteelAsia will remain at HK\$400,000,000 comprising 40,000,000,000 New Shares, of which 15,968,878 New Shares are expected to be in issue (representing the number of issued New Shares as at the Latest Practicable Date) and 39,984,031,122 New Shares will be unissued.

### **Conditions of the Capital Reorganisation**

The Capital Reorganisation will be conditional upon:

- (i) the passing at the SGM of a special resolution by the Independent Shareholders approving the Capital Reorganisation;
- (ii) the GEM Listing Committee granting listing of, and permission to deal in, the New Shares which will be in issue following completion of the Capital Reorganisation;
- (iii) compliance by iSteelAsia with the requirements of Section 46(2) of the Companies Act; and

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## LETTER FROM THE iSTEELASIA BOARD

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- (iv) the Open Offer, the Subscription and the Whitewash Waiver being approved by the Independent Shareholders at the SGM.

### Reasons for the Capital Reorganisation

The par value of the existing Shares is HK\$0.10 each, which represents approximately 355% premium over the closing price of HK\$0.022 per Share as quoted on GEM as at the Latest Practicable Date. Under Bermuda law, a company cannot issue shares at a discount to par. After the implementation of the Capital Reorganisation, the market value of the New Shares is expected to be above the par value of the New Shares of HK\$0.01 each. The iSteelAsia Board is of the opinion that reducing the par value of the existing Shares to HK\$0.01 each will facilitate the issue of New Shares by iSteelAsia for equity fund raising and is thus in the interests of iSteelAsia and the Shareholders as a whole.

The iSteelAsia Board intends that the sums credited to the contributed surplus account of iSteelAsia arising from the Capital Reduction and the Share Premium Reduction will be used to set off the accumulated losses of iSteelAsia. The audited financial statements of iSteelAsia as at 31 March 2005 show that iSteelAsia had accumulated losses of approximately HK\$161.6 million at that date. Set out below are the effects of the Capital Reduction and the Share Premium Reduction:

	<i>HK\$ million</i>
Credit arising from the Capital Reduction	159.5
Credit arising from the Share Premium Reduction	<u>11.1</u>
Contributed surplus account	170.6
<i>Less: Accumulated losses of iSteelAsia as at 31 March 2005</i>	<u>(161.6)</u>
Surplus after the Capital Reduction and the Share Premium Reduction	<u><u>9.0</u></u>

The Capital Reorganisation will allow iSteelAsia to eliminate such accumulated losses. With a view to preserving financial resources for the future development of iSteelAsia, the iSteelAsia Board has no present intention to distribute dividend upon completion of the Capital Reorganisation. On that basis, the iSteelAsia Board considers it appropriate to implement the Capital Reorganisation.

### Effect of the Capital Reorganisation

Except for the expenses to be incurred in relation to the Capital Reorganisation and the fractional Consolidated Shares not issued to the Shareholders, the implementation of the Capital Reorganisation will not, by itself, alter the net asset value, business operations, or financial position of the iSteelAsia Group or the proportionate interests of the Shareholders.

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## LETTER FROM THE iSTEELASIA BOARD

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The New Shares after the Capital Reorganisation will rank *pari passu* in all respects with each other. iSteelAsia will apply to the GEM Listing Committee for the listing of, and permission to deal in, the New Shares in issue upon the Capital Reorganisation taking effect.

Following the implementation of the Capital Reorganisation, share certificates for the existing Shares will continue to be effective as documents of title for one-hundredth of the number of the New Shares, but will cease to be marketable and will not be acceptable for dealing and settlement purposes.

### **Trading arrangement and free exchange of New Share certificates**

The Shares are presently traded in board lots of 2,000. Following the implementation of the Capital Reorganisation, the New Shares will be traded in board lots of 2,000. Accordingly the theoretical market value of each board lot upon the Capital Reorganisation becoming effective is expected to be approximately 100 times the market value of the existing board lot.

Subject to the Capital Reorganisation becoming effective, dealings in the New Shares are expected to commence on Friday, 15 July 2005 and it is proposed that arrangements for trading in the New Shares will be as follows:

- (a) from Friday, 15 July 2005, the existing counter for trading in the existing Shares in board lots of 2,000 Shares will be temporarily closed. A temporary counter for trading in the New Shares in board lots of 20 New Shares in the form of existing share certificates for the Shares will be established. Share certificates for Shares (blue in colour) can only be traded at the temporary counter;
- (b) with effect from Friday, 29 July 2005, the existing counter will be reopened for trading in the New Shares in board lots of 2,000 New Shares (in the form of new share certificates for the New Shares (orange in colour)). Only new share certificates for the New Shares (orange in colour) can be traded at this counter;
- (c) during the period from Friday, 29 July 2005 to Friday, 19 August 2005 (both dates inclusive), parallel trading will be permitted at the two counters detailed in paragraphs (a) and (b) above; and
- (d) the temporary counter for trading in existing share certificates in board lots of 20 New Shares will be closed after the close of trading on Friday, 19 August 2005. Thereafter, trading will only be in the New Shares in board lots of 2,000 New Shares (in the form of new share certificates in orange colour). Existing share certificates for Shares (blue in colour) will cease to be marketable and will not be acceptable for delivery and settlement purposes. However, valid certificates for the Shares will remain effective as documents of title on the basis of one New Share for 100 Shares and may be exchanged for new share certificates for the New Shares (orange in colour) at any time on payment of a prescribed fee.

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## LETTER FROM THE iSTEELASIA BOARD

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In order to facilitate the trading of odd lots of the Consolidated Shares as a result of the Share Consolidation, iSteelAsia has appointed Celestial Securities Limited, as an agent to match, on a “best effort” basis, the sale and purchase of odd lots of the Consolidated Shares arising from the Share Consolidation. Such arrangement is to facilitate Shareholders who wish to dispose of or top up their odd lots of Consolidated Shares. Shareholders who wish to take advantage of this facility should contact Mr. Anthony Cheung of Celestial Securities Limited at 7th Floor, Low Block, Grand Millennium Plaza, 181 Queen’s Road, Central, Hong Kong (Tel.: 2287 8093) during the period commencing from Friday, 15 July 2005 up to and including Friday, 19 August 2005. Shareholders are reminded that in order to effect the transaction, they will have to lodge with Celestial Securities Limited the relevant share certificate(s) and duly signed and completed transfer form(s) and, if any, other documents of title. Shareholders should note that the matching of the sale and purchase of odd lots of the Consolidated Shares are not guaranteed.

Shareholders are recommended to consult their licensed dealer, bank manager, solicitor, professional accountant or other professional advisers if they are in any doubt about the facility described above.

Upon the Capital Reorganisation becoming effective (which is expected to be on Friday, 15 July 2005), share certificates of the New Shares with par value of HK\$0.01 each will be issued. Shareholders may from Friday, 15 July 2005 to Thursday, 28 July 2005 submit their certificates for the existing Shares to the Company’s branch share registrar, Computershare Hong Kong Investor Services Limited (“Share Registrar”) at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, in exchange, at the expense of iSteelAsia, for the new share certificates for the New Shares of HK\$0.01 each. It is expected that the new share certificates for the new Shares will be available for collection within 10 business days after the submission of the existing share certificates to the Share Registrar.

Application will be made to the GEM Listing Committee for listing of and permission to deal in the New Shares with par value of HK\$0.01 each.

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## LETTER FROM THE iSTEELASIA BOARD

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### PROPOSED OPEN OFFER

To raise new capital and to give existing Shareholders the opportunity to participate in the future expansion of the iSteelAsia Group, the iSteelAsia Board proposes the Open Offer.

#### Issue statistics

Basis of Open Offer:	one Offer Share for every New Share held by Qualifying Shareholders on the Record Date
Excess applications:	Qualifying Shareholders will be permitted to apply for New Shares in excess of their assured allotments
Number of New Shares expected to be in issue upon the Capital Reorganisation taking effect:	15,968,878 New Shares
Number of Offer Shares:	15,968,878 Offer Shares
Offer Price:	HK\$0.1566 per Offer Share

Qualifying Shareholders will be assured of receiving the number of Offer Shares applied for if application is made for a number of Offer Shares equal to or less than the number in their assured allotments. Applications for Offer Shares in excess of assured allotments will be considered (to the extent of the excess) and will be allotted to Qualifying Shareholders on a fair and equitable basis, but preference will be given to topping-up odd lots to whole board lots.

As at the Latest Practicable Date, there were outstanding Options to subscribe for a total of 52,750,000 Shares. The Options are exercisable up to 12 April 2010. Save as disclosed, iSteelAsia has no other outstanding convertible securities, options or warrants in respect of the Shares. Assuming that all the outstanding Options are exercised before the Record Date, the total number of Offer Shares that may be issued under the Open Offer will be 16,496,378 Offer Shares. It should be noted that an ordinary resolution will be proposed at the SGM for the cancellation of the Options.

Save for the Open Offer and the Subscription, iSteelAsia did not have any fund raising activity in the past 12 months.

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## LETTER FROM THE iSTEELASIA BOARD

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### **Qualifying Shareholders and Overseas Shareholders**

iSteelAsia will send the Prospectus Documents to the Qualifying Shareholders only. To qualify for the Open Offer, a Shareholder must be registered as a member of iSteelAsia at the close of business on the Record Date. Overseas Shareholders are qualified for the Open Offer only if the iSteelAsia Board, after making relevant enquiry as required under the GEM Listing Rules, considers that the offer to these Shareholders would not contravene any legal restriction under the laws of the relevant place or any requirement of the relevant regulatory body or stock exchange in that place. No assured allotment of the Offer Shares will be made to such Overseas Shareholders if, after making such enquiry, the iSteelAsia Board is of the opinion that it would be necessary or expedient, on account either of the legal restrictions under the laws of the relevant place or any requirement of the relevant regulatory body or stock exchange in that place, not to offer the Offer Shares to such Overseas Shareholders. iSteelAsia will send the Prospectus to such Overseas Shareholders for their information only but will not send the assured allotment letter and excess application form to them.

Under the Open Offer, there will be no trading in assured allotments of Offer Shares. In view of the relatively low recent trading volume of the Shares, the iSteelAsia Board does not expect there would be active trading in nil-paid Shares had the present exercise been structured as a rights issue. In the circumstances and given that the Open Offer enables existing Shareholders to maintain their percentage interests in iSteelAsia, the iSteelAsia Board decided that the additional administrative burden and expenses of providing for trading in nil-paid rights would not be justified.

### **Closure of register of members**

The register of members of iSteelAsia will be closed from Wednesday, 20 July 2005 to Thursday, 21 July 2005, both days inclusive, to determine Shareholders' entitlement to the Open Offer. No transfer of Shares will be registered during this period.

### **Offer Price**

The Offer Price of HK\$0.1566 per Offer Share, which is payable in full on application, was set by reference to the unaudited net assets of the iSteelAsia Group as at 31 December 2004 of approximately HK\$4.8 million less an allowance for the expenses of the Proposals of approximately HK\$2.3 million. The Offer Price represents (taking into account the effect of the Share Consolidation):

- (i) a discount of approximately 95.8% to the theoretical ex-entitlement price of HK\$3.7283 per New Share (based on the closing price of HK\$0.073 per Share as quoted on GEM on 19 April 2005, being the last day on which the Shares were traded immediately preceding the publication of the Announcement);

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## LETTER FROM THE iSTEELASIA BOARD

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- (ii) a discount of approximately 47.8% to the unaudited net asset value per New Share of the iSteelAsia Group as at 31 December 2004 (before any allowance for the expenses of the Proposals) of approximately HK\$0.30;
- (iii) a premium of approximately 17.0% to the audited net asset value per New Share of the iSteelAsia Group as at 31 March 2005 (before any allowance for the expenses of the Proposals) of approximately HK\$0.1338;
- (iv) a discount of approximately 97.9% to the closing price of HK\$7.3 per New Share (based on the closing price of HK\$0.073 per Share) as quoted on GEM on 19 April 2005, being the last day on which the Shares were traded immediately preceding the publication of the Announcement;
- (v) a discount of approximately 98.0% to the average closing price of HK\$7.85 per New Share (based on the average closing price of HK\$0.0785 per Share as quoted on GEM for the last ten trading days up to and including 19 April 2005);
- (vi) a discount of approximately 92.9% to the closing price of HK\$2.2 per New Share (based on the closing of HK\$0.022 per Share) as quoted on GEM on the Latest Practicable Date; and
- (vii) a discount of approximately 93.4% to the average closing price of HK\$2.39 per New Share (based on the average closing price of HK\$0.0239 as quoted on GEM for the last ten trading days up to and including the Latest Practicable Date).

*Note:* The closing prices of the New Shares referred to above are based on the relevant prices of the Shares adjusted to take into account the effect of the Capital Reorganisation, as the shares to be issued under the Open Offer will be New Shares after implementation of the Capital Reorganisation.

The iSteelAsia Board considers that the Open Offer is part and parcel of the Proposals that would improve the iSteelAsia Group's balance sheet and financial position and allow the iSteelAsia Group to leverage the experience and resources of the Ajia Parties to strengthen its business prospects by exploring new investment opportunities so as to put the iSteelAsia Group in a much more sound position to meet different challenges in future. Therefore, the iSteelAsia Board considers that the Open Offer (as part and parcel of the Proposals) is in the interests of iSteelAsia and the Shareholders as a whole.

The Offer Price is the same as the Subscription Price of the Subscription Shares to be issued to the Ajia Parties. The iSteelAsia Board considers the terms of the Open Offer to be fair and reasonable so far as the interests of the Shareholders are concerned.

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## LETTER FROM THE iSTEELASIA BOARD

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### Status of the Offer Shares

When fully paid, issued and allotted, the Offer Shares will rank pari passu in all respects with the then issued New Shares. Holders of the fully paid Offer Shares will be entitled to receive all future dividends and distributions which are declared, made or paid on or after the date of issue and allotment of the Offer Shares.

### Share Certificates

Subject to the fulfillment of the conditions of the Open Offer, certificates for the Offer Shares will be posted to successful applicants at their own risk.

### WARNING OF THE RISKS OF DEALING IN THE SHARES

**The Shares will be dealt with on an ex-entitlement basis from Monday, 18 July 2005. If the Underwriter terminates the Underwriting Agreement, or the conditions of the Open Offer are not fulfilled, the Open Offer will not proceed. Shareholders and the public are advised to exercise caution when dealing in the Shares, and if Shareholders are in any doubt about their position, they should consult their professional advisers.**

**The Open Offer may or may not proceed. Shareholders and interested investors are reminded to exercise caution when dealing in the Shares or the New Shares. iSteelAsia will make an appropriate announcement in the event that the Open Offer does not proceed.**

### LISTINGS AND DEALINGS

Application will be made to the GEM Listing Committee of the Stock Exchange for the listing for, and permission to deal in, the Offer Shares which may be issued pursuant to the Open Offer. Dealings in the Offer Shares are expected to commence on Wednesday, 10 August 2005. No part of the securities of iSteelAsia are listed or dealt in on any stock exchange other than the Stock Exchange, nor is the listing of, or permission to deal in, iSteelAsia's securities on any other stock exchange being or proposed to be sought.

Subject to the granting of a listing of, and permission to deal in, the Offer Shares on GEM, the Offer Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Offer Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading date is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Dealings in the Offer Shares will be subject to payment of the applicable stamp duty, Stock Exchange trading fee, SFC transaction levy and an investor compensation levy in Hong Kong.



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## LETTER FROM THE iSTEELASIA BOARD

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### UNDERWRITING ARRANGEMENTS

VSC BVI was interested in 301,026,000 Shares (equivalent to 3,010,260 New Shares), representing approximately 18.9% of the existing issued share capital of iSteelAsia as at the Latest Practicable Date and is therefore a connected person of iSteelAsia. VSC BVI has irrevocably undertaken to iSteelAsia to take up in full the 3,010,260 Offer Shares to which it will be entitled under the Open Offer.

VSC BVI has also agreed to underwrite the remaining Offer Shares in accordance with the terms of the Underwriting Agreement.

#### Underwriting Agreement

Date:	19 May 2005	
Underwriter:	VSC BVI	
Number of Offer Shares underwritten and undertaken to apply for:	Offer Shares which VSC BVI has undertaken to apply for	3,010,260
	Underwritten Shares	<u>12,958,618</u>
		<u>15,968,878</u>
Commission:	HK\$1,000	

Mr. Tsang has indicated to iSteelAsia that he will not subscribe for the Offer Shares to which he is entitled under the Open Offer.

#### Conditions of the Underwriting Agreement

The Underwriting Agreement is conditional on, among other things, the following:

- (a) (i) the approval of the Capital Reorganisation, the Open Offer, the Subscription and the Whitewash Waiver by the Independent Shareholders at the SGM on or before the Posting Date;
- (ii) the cancellation of all the Options being approved by the Shareholders (other than those Shareholders who are prohibited from voting under the relevant share option scheme of iSteelAsia) at the SGM on or before the Posting Date; and
- (iii) the Capital Reorganisation becoming unconditional and effective in all respects on or before the Posting Date;

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## LETTER FROM THE iSTEELASIA BOARD

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- (b) the Subscription Agreement becoming unconditional in all respects other than any condition therein requiring the Open Offer to be completed on or before the date on which dealings commence in the Offer Shares;
- (c) the granting of the Whitewash Waiver by the Executive on or before the date on which dealings commence in the Offer Shares;
- (d) the delivery to the Stock Exchange of two copies of the Prospectus Documents duly certified in accordance with the relevant requirements of the Companies Ordinance, and the issue by the Stock Exchange of a certificate of authorisation of registration on or before the Posting Date;
- (e) the delivery to and registration by the Registrar of Companies in Hong Kong of one copy of each of the Prospectus Documents (duly signed by or on behalf of iSteelAsia Directors in accordance with section 342C of the Companies Ordinance), together with any other documents required by such section to be attached thereto on or before the Posting Date;
- (f) the filing of one copy of each of the Prospectus Documents with the Registrar of Companies in Bermuda in accordance with the Companies Act on or before the Posting Date; and
- (g) the GEM Listing Committee granting or agreeing to grant (subject to allotment) listing of, and permission to deal in, the New Shares, the Offer Shares, the Subscription Shares and the Conversion Shares which may be issued upon any exercise of the conversion rights under the Convertible Bonds, on or before the date on which dealings commence in the Offer Shares.

If the above conditions are not satisfied or waived by VSC BVI in whole or in part by the relevant dates specified above, the Underwriting Agreement shall terminate and no party will have any claim against any other party save that all out-of-pocket expenses and legal fees as may have been properly incurred by VSC BVI in connection with the proposed offer of the Offer Shares or the arrangements contemplated by the Underwriting Agreement shall be borne by iSteelAsia and the Open Offer will not proceed. In such event, the Underwriting Agreement will not become unconditional and the Open Offer and the Subscription will not be completed.

By virtue of the interest as the Underwriter in the Underwriting Agreement, which is part and parcel of the Proposals, VSC BVI, its Concert Parties and its associates will abstain from voting in respect of the resolution to approve the Open Offer at the SGM.

**Any person contemplating buying or selling the Shares from now up to the date on which all conditions of the Open Offer are fulfilled will bear the risk that the Open Offer may not become unconditional and may not proceed.**

**Investors should seek professional advice regarding dealings in the Shares during this period if they are in any doubt.**

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## LETTER FROM THE iSTEELASIA BOARD

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### THE SUBSCRIPTION

Subject to the conditions of the Subscription set out below, the Ajia Parties will subscribe for and iSteelAsia will allot and issue to the Ajia Parties or their nominees the Subscription Shares and the Convertible Bonds for a total cash consideration of HK\$30 million.

### THE SUBSCRIPTION AGREEMENT

Date: 19 May 2005

Parties:	Issuer:	iSteelAsia
	Subscribers:	Ajia Parties
	Company Warrantor:	Huge Top

#### The Subscription Shares

Number of New Shares to be subscribed for:	63,856,960 New Shares (representing approximately 400.0% of the existing issued Shares adjusting for the effect of the Capital Reorganisation and 66.6% of the Enlarged Share Capital), of which 19,693,486 New Shares and 44,163,474 New Shares will be subscribed by Mr. Tsang and NASAC respectively. After completion of the Proposals, the Ajia Parties own 64,366,360 New Shares, representing approximately 67.2% of Enlarged Share Capital.
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Subscription Price:	HK\$0.1566 per Subscription Share which was determined after arm's length negotiations between the parties.
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Total consideration payable:	HK\$10 million, of which HK\$3,084,000 and HK\$6,916,000 will be payable by Mr. Tsang and NASAC respectively.
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Listing:	Application will be made by iSteelAsia to the GEM Listing Committee for the listing of, and permission to deal in, the Subscription Shares.
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#### The Convertible Bonds

Principal amount:	HK\$20 million, of which HK\$6,168,000 and HK\$13,832,000 will be subscribed by Mr. Tsang and NASAC respectively.
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Coupon:	Nil
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## LETTER FROM THE iSTEELASIA BOARD

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Redemption:	<p>The holders of the Convertible Bonds will have the right to request iSteelAsia to redeem in whole or in part the outstanding Convertible Bonds on a date which is five business days after 30 November 2007.</p> <p>Unless previously converted or redeemed, the outstanding principal amount of the Convertible Bonds will be redeemed by iSteelAsia at par on the date which is 5 years after the date of issue or such later date as may be agreed between the holders of the Convertible Bonds and iSteelAsia.</p> <p>Overdue interest will be charged at 7% per annum, calculated on the basis of the actual days elapsed in a 365 day year, if iSteelAsia fails to meet all or any part of the redemption as described above.</p>
Maturity:	<p>The maturity date for the Convertible Bonds falls on a date which is 5 years after the date of issue. The yield to maturity for the Convertible Bonds is zero.</p>
Conversion rights:	<p>Holders of the Convertible Bonds will have the right to convert all or a portion of the Convertible Bonds into Conversion Shares at any time prior to the date upon which such Convertible Bonds are redeemed.</p>
Conversion Share:	<p>New Share of HK\$0.01 each to be allotted and issued by iSteelAsia upon conversion of the Convertible Bonds.</p>
Initial conversion price (subject to adjustment) per Conversion Share:	<p>HK\$0.1566. The conversion price is subject to adjustments for, among other matters, subdivision or consolidation of the New Shares, bonus issues, rights issues and other dilutive events.</p>
Number of Conversion Shares to be issued upon the exercise of the conversion rights attaching to the Convertible Bonds in full based on the initial conversion price of HK\$0.1566:	<p>127,713,920 New Shares, representing approximately 800.0% of the existing issued Shares after adjusting for the effect of the Capital Reorganisation, and approximately 133.3% of the Enlarged Share Capital.</p>

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## LETTER FROM THE iSTEELASIA BOARD

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- Voting:** The holders of the Convertible Bonds will not be entitled to receive notice of, attend or vote at general meetings of iSteelAsia by reason only of their being a holder of the Convertible Bonds.
- Transferability:** Subject to the relevant laws and other requirements, the Convertible Bonds are only transferable to (i) either of the Ajia Parties, (ii) any company (other than iSteelAsia) controlled by the Ajia Parties or either of them, or (iii) in the case of Mr. Tsang, (aa) to the extent applicable, any of the persons referred to in Rule 20.11(4)(b) of the GEM Listing Rules, (bb) any trustee acting in its or his capacity as such and holding for the benefit of any or all persons described in sub-clause (aa) above, or (cc) any company controlled by a trustee described in sub-clause (bb) above, and in compliance with GEM Listing Rules where applicable. The outstanding principal amount of the Convertible Bonds may be transferred in full or in part.
- Listing:** No application will be made for the listing of the Convertible Bonds on the Stock Exchange or any other stock exchange. Application will be made to the GEM Listing Committee for the listing of the Conversion Shares falling to be issued on exercise of the conversion rights attaching to the Convertible Bonds.

### **Ranking of Conversion Shares**

The Conversion Shares to be issued by iSteelAsia upon exercise of the conversion rights under the Convertible Bonds will rank *pari passu* in all respects with all other New Shares in issue on the date of the conversion notice and will be entitled to all dividends, bonuses and other distributions the record date of which falls on a date on or after the date of the conversion notice.

### **Conversion price**

The initial conversion price of HK\$0.1566 per Conversion Share, subject to adjustments in accordance with the terms of the Convertible Bonds, was determined after arm's length negotiations.

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## LETTER FROM THE iSTEELASIA BOARD

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### **Basis of the Subscription Price and the initial conversion price**

The Subscription Price and the initial conversion price per Conversion Share of HK\$0.1566 are the same as the Offer Price. They respectively represent (taking into account the effect of the Share Consolidation):

- (i) a discount of approximately 47.8% to the unaudited net asset value per New Share of the iSteelAsia Group as at 31 December 2004 (before any allowance for the expenses of the Proposals) of HK\$0.30;
- (ii) a premium of approximately 17.0% to the audited net asset value per New Share of the iSteelAsia Group as at 31 March 2005 (before any allowance for the expenses of the Proposals) of approximately HK\$0.1338;
- (iii) a discount of approximately 97.9% to the closing price of HK\$7.3 per New Share (based on the closing price of HK\$0.073 per Share) as quoted on GEM on 19 April 2005, being the last day on which the Shares were traded immediately preceding the publication of the Announcement;
- (iv) a discount of approximately 98.0% to the average closing price of HK\$7.85 per New Share (based on the average closing price of HK\$0.0785 per Share as quoted on GEM for the last ten trading days up to and including 19 April 2005);
- (v) a discount of approximately 92.9% to the closing price of HK\$2.2 per New Share (based on the closing of HK\$0.022 per Share) as quoted on GEM on the Latest Practicable Date; and
- (vi) a discount of approximately 93.4% to the average closing price of HK\$2.39 per New Share (based on the average closing price of HK\$0.0239 as quoted on GEM for the last ten trading days up to and including the Latest Practicable Date).

*Note:* The closing prices of the New Shares referred to above are based on the relevant prices of the Shares adjusted to take into account the effect of the Capital Reorganisation, as the Subscription Shares and Conversion Shares to be issued will be New Shares after implementation of the Capital Reorganisation.

The iSteelAsia Board considers that the Subscription is part and parcel of the Proposals that would improve the iSteelAsia Group's balance sheet and financial position and allow the iSteelAsia Group to leverage the experience and resources of the Ajia Parties to strengthen its business prospects by exploring new investment opportunities so as to put the iSteelAsia Group in a much more sound position to meet different challenges in future. Therefore, the iSteelAsia Board considers that the Subscription (as part and parcel of the Proposals) is in the interests of iSteelAsia and the Shareholders as a whole.

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## LETTER FROM THE iSTEELASIA BOARD

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The Subscription Price was agreed after arm's length negotiations between iSteelAsia, the Underwriter and the Ajia Parties. The iSteelAsia Board considers the Subscription Price and the initial conversion price of the Convertible Bonds to be fair and reasonable in the context of the Proposals.

### Conditions of the Subscription

Completion of the Subscription shall be conditional upon satisfaction of the following conditions precedent and/or, as the case may be, waiver of the applicable conditions by the Subscriber on or before 5:00 p.m., Hong Kong time, on 31 August 2005 (or such later time and date as may be agreed between iSteelAsia and the Subscriber in writing) except as otherwise stated:

- (a) the Ajia Parties being satisfied with the results of a due diligence review on the iSteelAsia Group on or before 30 days after publication of the Announcement;
- (b) the granting of the Whitewash Waiver by the Executive;
- (c) the receipts of all necessary approvals of the GEM Listing Committee for the transactions contemplated in the Subscription Agreement, including without limitation, (i) the Share Consolidation and the Capital Reduction; and (ii) listing of, and permission to deal in, the New Shares, the Offer Shares, the Subscription Shares and the Conversion Shares;
- (d) the receipt of all necessary approvals of the Shareholders and/or the Independent Shareholders at the SGM for the transactions contemplated in the Subscription Agreement, including without limitation, (i) the Capital Reorganisation; (ii) the Open Offer; (iii) the Subscription (including the conversion of the Convertible Bonds into Conversion Shares in accordance with the conditions of the Convertible Bonds); and (iv) the Whitewash Waiver;
- (e) all Options having expired or been exercised or settled such that none of the Options remains exercisable;
- (f) the Open Offer having occurred and at least 15,966,669 Offer Shares have been subscribed for at a subscription price of HK\$0.1566 per Offer Share;
- (g) trading of the New Shares not being suspended for a period of ten or more consecutive business days at any time immediately prior to the satisfaction of the last of the conditions precedent (other than the conditions described in this sub-paragraph (g) and in sub-paragraphs (h) and (i) below);
- (h) there being no indication received from GEM or the SFC that the listing of the New Shares, the Offer Shares, the Subscription Shares or the Conversion Shares on GEM will or may be revoked or withdrawn at any time after completion of the Subscription,

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## LETTER FROM THE iSTEELASIA BOARD

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whether in connection with any of the transactions contemplated in the Subscription Agreement or otherwise, immediately before the satisfaction of the last of the conditions precedent (other than the conditions described in this sub-paragraph (h) and in sub-paragraphs (g) above and (i) below);

- (i) the representations and warranties given by iSteelAsia and Huge Top to the Ajia Parties as described in the Subscription Agreement remaining true, accurate and complete in all material respects immediately before the satisfaction of the last of the other conditions precedent (other than the conditions described in this sub-paragraph (i) and in sub-paragraphs (g) and (h) above);
- (j) the representations and warranties given by the Ajia Parties to iSteelAsia as set out in the Subscription Agreement remaining true, accurate and complete in all material respects;
- (k) there being no material adverse change in iSteelAsia's financial condition since 31 December 2004; and
- (l) all necessary consents and approvals required to be obtained on the part of iSteelAsia in respect of the Subscription and the transactions contemplated under the Subscription Agreement having been obtained.

Conditions (a), (e), (g), (h), (i), (k) and (l) above are waivable at the absolute discretion of the Ajia Parties, while condition (j) is waivable at the absolute discretion of iSteelAsia. The remaining conditions are not waivable.

In the event of any of the conditions specified above not being fulfilled or waived in full by 5:00 p.m., Hong Kong time, on 31 August 2005 (or such other time and date as may be agreed between iSteelAsia and the Ajia Parties in writing), the Subscription Agreement shall cease and determine (save for certain general provisions governing the contract) and thereafter none of the parties shall have any obligations or liabilities thereunder save for any antecedent breaches thereof.

### **Listings and dealings of the Subscription Shares and the Conversion Shares**

Application will be made to the GEM Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares to be issued pursuant to the Subscription Agreement and Conversion Shares which may be issued pursuant to any exercise of the conversion rights attaching to the Convertible Bonds.



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## LETTER FROM THE iSTEELASIA BOARD

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### Completion of the Subscription

Completion of the Subscription shall take place on the third business day after all of the above conditions have been fulfilled or waived by iSteelAsia or the Ajia Parties, as the case may be, and simultaneously with the allotment of the Offer Shares under the Open Offer or such later date as iSteelAsia and the Ajia Parties may mutually agree to in writing.

### Indemnities

In conjunction with the Subscription Agreement, Huge Top has given certain indemnities and undertakings in favour of iSteelAsia including but not limited to the following:

- (a) Huge Top shall use all reasonable endeavours to procure that the Existing Business is managed and conducted in such a manner as to cause the Consolidated NAV to equal or exceed HK\$5,000,000 after completion of the Proposals. In the event that:
  - (i) as at any of 30 September 2005 and 2006 (the “Relevant Dates”), the Consolidated NAV is a negative number which is less than 15% of the sum of the i-AsiaB2B Group’s inventory, deposits for purchase of inventory and prepayment for purchase and carrying of inventories balances for the financial year immediately before the Relevant Dates, as Huge Top shall pay or cause to be paid to iSteelAsia without recourse a sum in cash equal to the amount that would have been required to cause Consolidated NAV to equal to HK\$5,000,000 pursuant to the terms and conditions of the Deed of Indemnity;
  - (ii) as at either 31 March 2006 or 2007, the Consolidated NAV is less than HK\$5,000,000, Huge Top shall pay or cause to be paid to iSteelAsia without recourse a sum in cash equal to the amount that would have been required to cause Consolidated NAV to equal HK\$5,000,000 pursuant to the terms and conditions of the Deed of Indemnity; and
  - (iii) as at 30 September 2007, the net cash balance (being defined as the aggregate amount of cash and bank balances, free of any encumbrances, less unsecured payables and other liabilities, capital commitments, contingent liabilities, the estimated financial effect of all non-adjusting events, and future lease payments under non-cancellable operating leases and sub-leases as reflected in the audited accounts of the i-AsiaB2B Group (including the notes thereto) is less than HK\$5,000,000, Huge Top shall pay or cause to be paid to iSteelAsia without recourse a sum in cash equal to the amount that would have required to cause the net cash (as defined above) to equal HK\$5,000,000 pursuant to the terms and conditions of the Deed of Indemnity.

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## LETTER FROM THE iSTEELASIA BOARD

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- (b) In the event that iSteelAsia notifies Huge Top in writing of a Potential Claim on or prior to the date which is five business days after 30 September 2007, Huge Top agrees to fully indemnify and keep iSteelAsia and its successors fully indemnified on demand from and against any and all losses, liabilities, damages, reasonable costs and expenses which iSteelAsia may directly or indirectly incur or sustain from or in consequence of the Potential Claim pursuant to the terms and conditions of the Deed of Indemnity.
- (c) Without in any way limiting its obligations under sub-paragraphs (a) and (b) above and in addition to such obligations, Huge Top undertakes to fully indemnify and keep iSteelAsia and its successors and assigns fully indemnified on demand from and against any and all losses, liabilities, damages, reasonable costs and expenses (including the fees and expenses of legal advisors and related court costs) which iSteelAsia may directly or indirectly incur or sustain from or in consequence of the Existing Business to the extent such losses, liabilities, damages, costs and expenses are not wholly or partially covered by the guarantee described in sub-paragraphs (a) and (b) above; provided that:
  - (i) Huge Top shall have no further liability for the claims described above after the date five Business Days from 30 November 2007; and
  - (ii) Huge Top's liability as described in this sub-paragraph (c) shall not exceed HK\$30,000,000.
- (d) In addition, in the event of the occurrence of any one of the following circumstances, Huge Top shall have no obligation to make any payment or satisfy any claim described in sub-paragraphs (a), (b) and (c) above:
  - (i) if any two of iSteelAsia's chief executive officer, chief operating officer and chief financial officer cease to be individuals nominated by the Ajia Group; or
  - (ii) any two of the three individuals who are currently directors of API cease to serve in such capacity.

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## LETTER FROM THE iSTEELASIA BOARD

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### TERMINATION OF THE PROPOSALS

Each of the Subscription Agreement and the Underwriting Agreement (the “**relevant agreement**”) further contains provisions entitling the Ajia Parties in the case of the Subscription Agreement, or the Underwriter in the case of the Underwriting Agreement (the “**relevant party**”), to terminate its obligations thereunder if at any time prior to completion of the Subscription Agreement in the case of the Subscription Agreement or prior to 4:00 p.m. on the date of the allotment of the Offer Shares in the case of the Underwriting Agreement there comes to the notice of the relevant party, that:

- (i) any of the representations and warranties given by the other parties to the relevant agreement is untrue or inaccurate in any material respect; or
- (ii) any of the obligations or undertakings expressed to be assumed by or imposed on the other parties to the relevant agreement has not been complied with or observed by them in any material respect;

or there shall develop, occur, exist or come into effect any moratorium, suspension or material restriction on trading in securities generally on GEM occurring due to exceptional financial circumstances or otherwise which, in the reasonable opinion of the relevant party:

- (i) is or will be materially adverse to the business, financial or other condition or prospects of the iSteelAsia Group or to any present or prospective Shareholders in his or their capacity as such; or
- (ii) make it inadvisable or inexpedient to proceed with the Subscription or the Open Offer (as the case may be) on the terms and in the manner contemplated in the relevant agreement;

then in any such case the relevant party (after such consultation with iSteelAsia and/or its advisers as the circumstances shall admit) may in their/its absolute discretion by notice in writing to iSteelAsia at any time prior to completion of the Subscription Agreement in case of the Subscription Agreement or prior to 4:00 p.m. on the date of the allotment of the Offer Shares in the case of the Underwriting Agreement terminate the relevant agreement and thereupon all obligations of the relevant party thereunder shall cease and determine, in which event it shall not have any claim against iSteelAsia for compensation, costs, damages or otherwise except in the case of the Underwriting Agreement, iSteelAsia shall bear the costs and expenses of the Open Offer properly incurred by VSC BVI.

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## LETTER FROM THE iSTEELASIA BOARD

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### REASONS FOR THE OPEN OFFER AND THE SUBSCRIPTION AND USE OF PROCEEDS

iSteelAsia and its subsidiaries are principally engaged in the trading of steel products, provision of procurement services for steel products, operation of an e-commerce vertical portal for the provision of online steel trading services and ancillary services.

The iSteelAsia Group made an audited loss attributable to Shareholders of approximately HK\$25.7 million for its financial year ended 31 March 2004 and unaudited loss attributable to Shareholders of approximately HK\$7.8 million for the nine months ended 31 December 2004. During the current financial year, turnover of the iSteelAsia Group continued to decrease when comparing to the corresponding periods in last year, which is principally due to the lasting adverse effect of the PRC government's continuous macro-entrenchment policies to limit the excessive investments in several overheated industries including the steel, aluminium, automobile and cement industries as well as the real estate sector. To achieve better allocation of the iSteelAsia Group's financial resources, the iSteelAsia Group has put efforts into selected higher margin steel products with a view to bringing greater return to Shareholders. The iSteelAsia Board considers that there remain uncertainties and price volatility due to unanticipated macro-control measures executed by the PRC government. In light of the tough macro-economic environment under which the iSteelAsia Group is operating, the iSteelAsia Group will continue its path to increase shareholders' value by continuing to enhance its revenue base, rationalise and streamline its resources and corporate structure to optimise operational efficiency, build a sound customer base for future growth. To this end, the iSteelAsia Board is of the view that the Proposals would improve the iSteelAsia Group's balance sheet and financial position and allow the iSteelAsia Group to leverage the experience and resources of the Ajia Parties to strengthen its business prospects by exploring new investment opportunities so as to put the iSteelAsia Group in a much more sound position to meet different challenges in future. The iSteelAsia Board considers that the Open Offer and the Subscription are part and parcel of the Proposals and that the Open Offer would allow the Qualifying Shareholders to participate in the Proposals on equal terms as the Ajia Parties. Therefore, the iSteelAsia Board considers that the Open Offer and the Subscription are in the interests of iSteelAsia and the Shareholders as a whole. In view of the financial performance of the iSteelAsia Group and the tough macro-economic environment under which the iSteelAsia Group is operating, the iSteelAsia Directors consider that it is difficult for iSteelAsia to raise sufficient funding by means of share placements. Therefore, the iSteelAsia Directors consider that the Proposals are in the interests of iSteelAsia and the Shareholders as a whole.

The estimated proceeds (net of expenses) from the Open Offer and the Subscription will be approximately HK\$30.2 million. iSteelAsia plans to use approximately HK\$4.2 million as general working capital for the iSteelAsia Group and approximately HK\$26 million to finance future investments should suitable opportunities arise and subject to the results of a review of

## LETTER FROM THE iSTEELASIA BOARD

the business operations and financial position of the iSteelAsia Group to be conducted by the Ajia Parties after completion of the Proposals. Despite no specific investment targets having been identified, the iSteelAsia Board is of the view that the Subscription would give the iSteelAsia Group financial flexibility and enable it to maintain a cash reserve to capture investment opportunities should they arise. The iSteelAsia Board therefore considers that the Open Offer and the Subscription are in the interests of iSteelAsia and the Shareholders as a whole.

### EFFECTS OF THE PROPOSALS

#### Shareholding structure

The following table sets out the shareholding structure of iSteelAsia as at the Latest Practicable Date and the shareholding structures upon the Capital Reorganisation taking effect and after completion of the Open Offer and the Subscription (but before any exercise of the conversion rights attaching to the Convertible Bonds and assuming no outstanding Options are exercised before the Record Date) and the effect of exercise of the conversion rights attaching to the Convertible Bonds.

(a) Assume that none of the Offer Shares are taken up by the Qualifying Shareholders

Shareholders	Existing shareholding as at the Latest Practicable Date		Upon the Capital Reorganisation taking effect		Upon completion of the Open Offer and Subscription		Upon completion of the Open Offer and Subscription and exercising of the conversion rights of the Convertible Bonds	
	Shares	%	New Shares	%	New Shares	%	New Shares	%
VSC BVI	301,026,000	18.9	3,010,260	18.9	18,979,138	19.8	18,979,138	8.5
TN (Note 1)	163,367,600	10.2	1,633,676	10.2	1,633,676	1.7	1,633,676	0.7
Huge Top (Note 2)	159,811,344	10.0	1,598,113	10.0	1,598,113	1.7	1,598,113	0.7
Right Action Offshore Inc. (Note 3)	102,400,000	6.4	1,024,000	6.4	1,024,000	1.1	1,024,000	0.5
The Ajia Parties:								
NASAC	—	—	—	—	44,163,474	46.1	132,490,421	59.2
Mr. Tsang	50,940,000	3.2	509,400	3.2	20,202,886	21.1	59,589,859	26.7
Sub-total	50,940,000	3.2	509,400	3.2	64,366,360	67.2	192,080,280	85.9
Public	819,342,861	51.3	8,193,429	51.3	8,193,429	8.5	8,193,429	3.7
Total	<u>1,596,887,805</u>	<u>100.0</u>	<u>15,968,878</u>	<u>100.0</u>	<u>95,794,716</u>	<u>100.0</u>	<u>223,508,636</u>	<u>100.0</u>

## LETTER FROM THE iSTEELASIA BOARD

(b) *Assume all the Qualifying Shareholders (other than the Ajia Parties) take up in full their respective entitlement of Offer Shares*

Shareholders	Existing shareholding as at the Latest Practicable Date		Upon the Capital Reorganisation taking effect		Upon completion of the Open Offer and Subscription		Upon completion of the Open Offer and Subscription and exercising of the conversion rights of the Convertible Bonds	
	Shares	%	New Shares	%	New Shares	%	New Shares	%
VSC BVI	301,026,000	18.9	3,010,260	18.9	6,529,920	6.8	6,529,920	3.0
TN ( <i>Note 1</i> )	163,367,600	10.2	1,633,676	10.2	3,267,352	3.4	3,267,352	1.5
Huge Top ( <i>Note2</i> )	159,811,344	10.0	1,598,113	10.0	3,196,226	3.3	3,196,226	1.4
Right Action Offshore Inc. ( <i>Note 3</i> )	102,400,000	6.4	1,024,000	6.4	2,048,000	2.2	2,048,000	0.9
The Ajia Parties:								
NASAC	—	—	—	—	44,163,474	46.1	132,490,421	59.2
Mr. Tsang	50,940,000	3.2	509,400	3.2	20,202,886	21.1	59,589,859	26.7
Sub-total	50,940,000	3.2	509,400	3.2	64,366,360	67.2	192,080,280	85.9
Public	819,342,861	51.3	8,193,429	51.3	16,386,858	17.1	16,386,858	7.3
Total	<u>1,596,887,805</u>	<u>100.0</u>	<u>15,968,878</u>	<u>100.0</u>	<u>95,794,716</u>	<u>100.0</u>	<u>223,508,636</u>	<u>100.0</u>

*Notes:*

1. TN is owned as to 54% by VSC BVI, as to 10% by Mr. Andrew Yao and as to 5% by Mr. Tsang. All the 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. Details of such agreements have been disclosed in iSteelAsia's prospectus dated 14 April 2000. The sole purpose of TN is to provide an avenue to motivate iSteelAsia's employees and founding members while at the same time not incurring any dilution effect to the public investors of iSteelAsia.
2. Huge Top, which is owned as to more than one-third by Mr. Andrew Yao, directly holds approximately 47.05% of the issued share capital of Van Shung Chong. Huge Top directly holds approximately 10.01% of the issued share capital of iSteelAsia. Huge Top, through VSC BVI, indirectly holds approximately 18.85% of the issued share capital of iSteelAsia and, through its indirect deemed interest through TN, holds approximately 10.23% of the issued share capital of iSteelAsia. Therefore, in aggregation, Huge Top directly and indirectly owns approximately 39.10%
3. Right Action Offshore Inc. is beneficially and wholly owned by Mr. Andrew Yao.

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## LETTER FROM THE iSTEELASIA BOARD

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### **Maintaining the listing of iSteelAsia**

The Stock Exchange has stated that if, at the date of completion of the Proposals, less than 15% of the New Shares are held by the public or if the Stock Exchange believes that a false market exists or may exist in the trading in the New Shares, it will consider exercising its discretion to suspend trading in the New Shares. In this connection, it should be noted that upon completion of the Proposals, there may be insufficient public float for the New Shares and therefore trading in the New Shares may be suspended until a sufficient level of public float is attained. Under Rule 11.23 of the GEM Listing Rules, the Stock Exchange may require suspension of trading in an issuer's securities where the percentage of its public float falls below the minimum prescribed percentage.

Accordingly, the Ajia Parties, VSC BVI and iSteelAsia have each undertaken to the Stock Exchange to use their best endeavours to take appropriate steps to ensure that, as soon as possible following issuance of the New Shares upon completion of the Proposals, the public float of iSteelAsia will not be less than 15% after completion of the Proposals. The Ajia Parties have undertaken to Huge Top, and Huge Top has undertaken to the Ajia Parties to procure VSC BVI, to make arrangements to place down New Shares in proportion to their holdings in iSteelAsia on completion of the Proposals so as to restore the public float to at least 15% of the Enlarged Share Capital.

Each of the Ajia Parties has undertaken to the Stock Exchange that for so long as it remains a connected person of iSteelAsia, it will not exercise the conversion rights of the Convertible Bonds if the public float of iSteelAsia falls below 15% upon exercise of conversion rights of the Convertible Bonds.

It is the intention of the Ajia Parties to maintain the listing of the New Shares on GEM after completion of the Proposals. If iSteelAsia remains a listed company, the Stock Exchange will closely monitor all future acquisitions or disposals of assets by iSteelAsia. The Stock Exchange has indicated that it has the discretion to require iSteelAsia to issue an announcement and a circular to the Shareholders irrespective of the size of the proposed transactions, particularly when such proposed transactions represent a departure from the principal activities of iSteelAsia. The Stock Exchange also has the power, pursuant to the GEM Listing Rules, to aggregate a series of transactions of iSteelAsia and any such transactions may result in iSteelAsia being treated as if it were a new listing applicant as set out in the GEM Listing Rules.

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## LETTER FROM THE iSTEELASIA BOARD

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### **Dilution effect on Shareholders**

In view of the future dilution of existing Shareholders on the exercise of the conversion rights attaching to the Convertible Bonds, iSteelAsia will keep the Shareholders informed of the level of dilution and details of conversion as follows:

- (a) iSteelAsia will make a monthly announcement (the “Monthly Announcement”) on the website of the Stock Exchange after completion of the Proposals. Such announcement will be made on or before the fifth business day following the end of each calendar month and will include the following details in a table form:
  - (i) whether there is any conversion of the Convertible Bonds during the relevant month. If there is a conversion, details thereof including the conversion date, number of New Shares issued and conversion price for each conversion. If there is no conversion during the relevant month, a negative statement to that effect;
  - (ii) the number of outstanding Convertible Bonds after the conversion, if any;
  - (iii) the total number of New Shares issued pursuant to other transactions during the relevant month, including New Shares issued pursuant to exercise of options under any share option scheme(s) of iSteelAsia; and
  - (iv) the total issued share capital of iSteelAsia as at the commencement and the last day of the relevant month; and
- (b) in addition to the Monthly Announcement, if the cumulative amount of New Shares issued pursuant to the conversion of the Convertible Bonds reaches 5% of the issued share capital of iSteelAsia as disclosed in the last Monthly Announcement or any subsequent announcement made by iSteelAsia in respect of the Convertible Bonds (as the case may be) (and thereafter in a multiple of such 5% threshold), iSteelAsia will make an announcement on the website of the Stock Exchange including details as stated in (a) above for the period commencing from the date of the last Monthly Announcement or any subsequent announcement in respect of the Convertible Bonds (as the case may be) up to the date on which the total amount of New Shares issued pursuant to the conversion amounted to 5% of the issued share capital of iSteelAsia as disclosed in the last Monthly Announcement or any subsequent announcement made by iSteelAsia in respect of the Convertible Bonds (as the case may be).

**Upon completion of the Proposals, the Independent Shareholders’ aggregate interests in iSteelAsia would be reduced from approximately 51.3% to a range of approximately 8.5% to approximately 17.1%, depending on the level of the Offer Shares under the Open Offer to be taken up by the Shareholders. The Independent Shareholders’ aggregate interests in iSteelAsia would be further reduced to a range of approximately 3.7% to approximately 7.3%, assuming that all of the conversion rights attaching to the Convertible Bonds shall be exercised.**

**The Shareholders are strongly advised to consider carefully the information contained in the section headed “Intentions of the Ajia Parties for the future development of the iSteelAsia Group” of this letter.**



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## LETTER FROM THE iSTEELASIA BOARD

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### **Takeovers Code implications of the Proposals**

Immediately after the issue of the Offer Shares and the Subscription Shares at completion of the Proposals but before any exercise of the conversion rights under the Convertible Bonds, and assuming that there have been no other changes in the issued share capital of iSteelAsia after the Latest Practicable Date, the Ajia Parties and their Concert Parties will hold approximately 67.2% of iSteelAsia's Enlarged Share Capital. As a result, under the Takeovers Code, the Ajia Parties will have an obligation to make a mandatory general offer following completion of the Proposals to acquire all the New Shares other than those already owned or agreed to be acquired by the Ajia Parties and their Concert Parties, unless the Whitewash Waiver is obtained.

One of the conditions precedent for completion of the Subscription requires that the Whitewash Waiver be obtained and this condition is not waivable. If the Whitewash Waiver is not obtained, the Subscription and the Open Offer will not become unconditional and will not proceed. In the circumstances, a mandatory offer will not be made by the Ajia Parties.

An application has been made to the Executive for the Whitewash Waiver under Note 1 of the Notes on dispensations from Rule 26 of the Takeovers Code. The Executive has agreed, subject to approval by Independent Shareholders on a vote taken by way of a poll, to grant the Whitewash Waiver. The Ajia Parties and their Concert Parties have not acquired any voting rights in iSteelAsia in the 6 months prior to the Latest Practicable Date.

**Upon completion of the Proposals, the Ajia Parties and their Concert Parties will hold more than 50% of the Enlarged Share Capital then in issue. In such event, if the Whitewash Waiver is granted, the Ajia Parties may acquire additional New Shares without triggering any further obligation for a general offer under the Takeovers Code.**

### **INFORMATION ON THE AJIA GROUP**

NASAC is a company incorporated in the Cayman Islands. Its authorised share capital comprises 1 voting participating share and 49,999 non-voting participating shares, all with par value of US\$1 each. As at the Latest Practicable Date, NASA holds the single voting participating share of NASAC. Pursuant to the memorandum of association of NASAC, the non-voting participating shareholders have no voting rights (save for matters affecting their class of shares only) and these shares cannot be converted into voting participating shares. Accordingly, NASAC is controlled by NASA.

NASAC is a special purpose vehicle formed for the purpose of the Subscription. Save for the Subscription being contemplated, NASAC has not engaged in any other business since its incorporation and does not hold any material assets other than the subscription monies from its issued share capital. The directors of NASAC are Mr. Chow and Mr. Cheng. The subscription

## LETTER FROM THE iSTEELASIA BOARD

monies payable by NASAC will be funded by NASAC issuing the non-voting participating shares to investors (see below) who are independent of iSteelAsia and its connected persons (as defined in the GEM Listing Rules). The shareholding structure of NASAC as at the Latest Practicable Date is as follows:

<b>Class of shares</b>	<b>Shareholder</b>	<b>No. of shares held</b>	<b>% to total issued shares within the same class</b>
Voting participating	NASA	1	100.00
Non-voting participating	Mr. Cho	50	18.80
	Mr. Chow	50	18.80
	Mr. Malm	25	9.40
	Mr. Cheng	10	3.76
	Mr. Frederick John Lee	10	3.76
	Ms. Luk Pui Yin Grace	6	2.25
	Mr. Heffner Paul Lincoln	5	1.88
	Asia Internet Capital Ventures LP	100	37.59
	Mr. Bob Li-Shyng Ching	10	3.76
		266	100.00

Mr. Cheng is the managing director of the Ajia Group's special situations group. Mr. Frederick John Lee is a partner of the Ajia Group's real estate group. Ms. Luk Pui Yin Grace is a director and financial controller of the Ajia Group's special situations group and real estate group. Mr. Heffner Paul Lincoln is the managing director of the Ajia Group's alternative investments group. Asia Internet Capital Ventures LP is a US\$33 million venture capital fund with 12 limited partners organised for the object and purpose of making private equity investments in internet and technology-oriented companies and managed by Mr. Tsang. To the best of the knowledge of the Ajia Parties, the limited partners of the said venture capital fund are independent of iSteelAsia and its connected persons (as defined in the GEM Listing Rules). Two of the limited partners of the said venture capital fund are also interested in an investment company which is in turn a 5.1% shareholder of API and of which Mr. Tsang is the controlling shareholder. Save as disclosed herein, the limited partners of the said venture capital fund are independent of and not connected with the Ajia Parties and their Concert Parties. Mr. Bob Li-Shyng Ching is a retired professional investor.

NASA is a wholly-owned subsidiary of API and is an investment holding company. As at the Latest Practicable Date, NASAC is the only investment held by NASA. The directors of NASA are Mr. Cho, Mr. Chiang, Mr. Tsang and Mr. Chow.

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## LETTER FROM THE iSTEELASIA BOARD

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API is an investment holding company and its investee companies are engaged in the provision of investment advisory services including asset management, securities and futures dealings and wealth management. API has 24 registered shareholders who are individuals or institutional investors. The directors of API are Mr. Cho, Mr. Tsang and Mr. Chiang. Mr. Tsang, Mr. Cho, Mr. Chiang, Mr. Chow and their associates are also shareholders of API, who in aggregate hold approximately 68.0% equity interest in API. In addition, three members of the senior management team of the Ajia Group and their respective associates hold in aggregate approximately 12.5% equity interest in API. Apart from them, the other shareholders of API with respective shareholdings in API ranging from 0.09% to 4.25% are passive investors with no participation in the management of NASAC, NASA or API. Pursuant to the shareholders' agreement for API, all the shareholders have agreed to exercise their powers in relation to API to procure that the board appoints Mr. Tsang as senior managing director, and Mr. Chiang and Mr. Cho as managing director of API and entrust to, and confer upon, the aforesaid individuals control over the day-to-day management of the company.

Mr. Tsang, the chairman and managing partner of API, was a non-executive director of iSteelAsia and Van Shung Chong during the period from 23 February 2000 to 23 January 2001 and from 29 September 1999 to 17 August 2002 respectively. Mr. Tsang currently holds a 5% interest in TN which in turn holds 163,367,600 Shares (representing an approximately 10.2% interest in iSteelAsia). He is also beneficially interested in a total of 50,940,000 Shares, representing approximately 3.2% of the existing issued share capital of iSteelAsia as at the Latest Practicable Date. Apart from Mr. Tsang, none of the directors or shareholders of NASAC, NASA or API owns any interest in the securities of iSteelAsia. Mr. Philip King Huen Ma, an independent non-executive Director, is interested in approximately 0.47% of the issued non-voting preference shares of an investment company which in turn holds approximately 5.1% interest in API and of which Mr. Tsang is a controlling shareholder. Save as aforesaid, Mr. Tsang, the directors and shareholders of NASAC, NASA or API are independent of iSteelAsia and its connected persons (as defined in the GEM Listing Rules).

Save for Mr. Tsang's interest in the Shares as disclosed above, the Ajia Parties and their Concert Parties currently have no interest in the issued share capital or other securities of iSteelAsia or any other business relationship with the iSteelAsia Group. Mr. Tsang has on two occasions during the six months prior to the date of the Initial Announcement disposed of an aggregate of 260,000 Shares beneficially owned by him. Apart from these, the Ajia Parties and their Concert Parties have not dealt in the Shares during the six months period prior to the date of the Initial Announcement. Details of the aforesaid dealings in the Shares by Mr. Tsang are set out in paragraph 10(a) of Appendix II contained in this circular.

### PROPOSED CHANGES TO THE iSTEELASIA BOARD

The iSteelAsia Board currently consists of two executive iSteelAsia Directors, namely Mr. Andrew Yao and Mr. Desmond Hay Ching Fu, one non-executive iSteelAsia Director, namely Mr. David Michael Faktor, and three independent non-executive iSteelAsia Directors, Mr. Philip King Huen Ma, Mr. Kennedy Ying Ho Wong and Mr. Kenny King Ching Tam. As at the Latest Practicable Date, Mr. David Michael Faktor and Mr. Kennedy Ying Ho Wong have

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## LETTER FROM THE iSTEELASIA BOARD

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indicated that they intend to resign on the earliest date permitted by the Takeovers Code. Apart from them, none of the aforesaid iSteelAsia Directors has informed iSteelAsia of his intention to resign as a result of the Proposals. The Ajia Parties intend to nominate Mr. Chow, Mr. Cho and Mr. Malm as executive iSteelAsia Directors after completion of the Proposals and will consider other iSteelAsia Board appointments, though no specific candidates have been identified at this time. It is anticipated that Mr. Andrew Yao and Mr. Desmond Hay Ching Fu will continue to be primarily responsible for the Existing Business while the new iSteelAsia Directors nominated by the Ajia Parties will concentrate on overall investment and development strategies of the iSteelAsia Group. The Ajia Parties intend to play an active part in the management of the iSteelAsia Group following completion of the Proposals.

The brief biographies of the proposed new iSteelAsia Directors are set out below:

### **Mr. Chow Savio Sing Nam**

Mr. Chow, aged 48, is the lead partner for the Ajia Group's special situations group. Prior to joining the Ajia Group, Mr. Chow served as a Consultant at E.M. Warburg Pincus & Co. Asia Ltd. He has had about 20 years experience in the IT industry both in the US and Asia Pacific. He was the Managing Director of Yahoo! Inc. responsible for Asia. Prior to joining Yahoo, Mr. Chow held various senior management positions at Netscape Communications Corporation, Lotus Development Corporation and International Business Machines Corporation. He holds Master of Science degree in Engineering and Master of Business Administration degree from the University of California at Berkeley. Mr. Chow was an executive director of MediaNation Inc., a company listed on GEM (stock code: 8160), during July 2002 to February 2003.

### **Mr. Cho Henry Kim**

Mr. Cho, aged 40, is a co-founder and Managing Partner of API. He focuses primarily on investor/partner relations and activities for the Ajia Group's real estate and special situations groups. Prior to founding the firm, he was a Principal at Bank of America, N.A. Prior to Bank of America, N.A., Mr. Cho was with HSBC Markets (Asia) Limited in Hong Kong. Mr. Cho received his Bachelor degree in Economics and International Relations from Brown University and Master of Business Administration degree from the Wharton School, University of Pennsylvania.

### **Mr. Göran Sture Malm**

Mr. Malm, aged 58, is the Chairman of an investment company Boathouse Limited and of Project HOPE Hong Kong Foundation, a US originated charity. He also holds various board seats of companies in Hong Kong, Shanghai, Singapore and Sweden, including Samsung Electronics in Korea. Prior to joining Boathouse in 2000, Mr. Malm held positions as President of Dell Asia Pacific, Senior Vice President of Dell Computer Corporation, Senior Vice President of General Electric (GE) Company, President of General Electric Asia Pacific, President and Chief Executive Officer of GE Medical Systems Asia Ltd. and Vice President of General

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## LETTER FROM THE iSTEELASIA BOARD

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Electric (GE) Company. Mr. Malm holds a Master of Science degree in Economics and Business Administration from the University College of Economics and Business Administration in Göteborg, Sweden.

Save as disclosed above, none of the proposed executive iSteelAsia Directors held any directorships in listed public companies in Hong Kong in the last 3 years. Apart from their interests in the proposed Subscription by virtue of their being non-voting participating shareholders of NASAC, none of the above proposed executive iSteelAsia Directors hold any interests in the shares or other securities of iSteelAsia within the meaning of Part XV of the SFO as at the Latest Practicable Date, nor do they have any relationships with any directors, senior management, management shareholders, substantial shareholders, or controlling shareholders of iSteelAsia. There is neither any service contract between iSteelAsia and any of the proposed executive iSteelAsia Directors nor any proposed length of service with iSteelAsia in respect of their directorship. The amount of directors' emoluments of the proposed executive iSteelAsia Directors will be determined by the iSteelAsia Board with reference to their relevant duties and responsibilities within iSteelAsia and prevailing market conditions. Further announcements will be made in accordance with the disclosure requirements of the GEM Listing Rules regarding appointments of the proposed executive iSteelAsia Directors.

### **INTENTIONS OF THE AJIA PARTIES FOR THE FUTURE DEVELOPMENT OF THE iSTEELASIA GROUP**

It is the intention of the Ajia Parties that iSteelAsia should continue with its existing principal business in trading of steel products and the provision of procurement services for steel products, ancillary services and investment holding after completion of the Proposals. The Ajia Parties intend to conduct a review of the business operations and financial position of the iSteelAsia Group in order to formulate detailed business plans for the iSteelAsia Group with a view to strengthening its overall business performance and diversifying from the narrow focus of cyclical steel trading business. The Ajia Parties intend to explore opportunities in the acquisition of strategic, possibly controlling stakes, in companies with strong cash flow in growth sectors such as the consumer, industrial, technology, media and telecommunications businesses and have commenced preliminary evaluation of possible investment targets. By applying a disciplined investment process in seeking undervalued companies in these sectors, the Ajia Parties believe that the value of these companies can be significantly enhanced through proper integration, cost control, market expansion and consolidation, and such enhancement of asset value in the portfolio companies is more substantive from a cross-border angle in the North Asia region.

Execution of this diversification strategy for iSteelAsia will require further funding and additional expertise in identifying, evaluating and executing acquisitions.

On the funding side, the Ajia Parties intend to bring in financial investors to iSteelAsia Group and raise capital for iSteelAsia by way of placement of equity related instruments such as convertible notes or preference shares which would not cause any immediate dilution to Shareholders upon issue. The Ajia Parties consider that additional capital will provide financial

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## LETTER FROM THE iSTEELASIA BOARD

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resources to the iSteelAsia Group to capture sizeable investment opportunities and to implement the diversification strategy as discussed above. Some preliminary contacts with prospective professional investors have been made and it is intended that further discussions will be held, if the occasion arises, between the date of this circular and completion of the Proposals. However, in the current volatile market conditions, the Ajia Parties do not consider it practicable to obtain firm commitments from investors before the Ajia Parties achieve control of iSteelAsia. The Ajia Parties will, however, make fund raising a high priority immediately after completion of the Proposals.

As regards expertise, the Ajia Parties intend to leverage on the regional investment and acquisition experience of their associates in the North Asia region to generate leads for investment opportunities and provide local due diligence and deal execution assistance to the iSteelAsia Group. This will involve the recruitment of additional personnel, either directly or through management consulting arrangements, on terms which may include incentives (for example sharing of profits or gains on investments) normal in the private equity industry to align the interests of management with those of shareholders.

The Ajia Parties have no intention or plans to inject any assets or business of their own into the iSteelAsia Group or to re-deploy any assets of the iSteelAsia Group immediately after completion of the Proposals. Save for the nomination of new iSteelAsia Directors as described in the paragraph headed “Proposed changes to the iSteelAsia Board” above, the Ajia Parties do not intend to make any changes to the continued employment of the employees of the iSteelAsia Group by reason only of the completion of the Proposals.

As at the Latest Practicable Date, no definite investment or funding or consulting arrangements have been concluded. Any such investment and/or fund raising exercises and/or consulting arrangement will be conducted in compliance with relevant GEM Listing Rules and the Takeovers Code, where applicable.

The Ajia Parties believe that their investment strategies will diversify iSteelAsia’s current cyclical business and adopt an industrial holding company model. In general, investors investing through a listed company will have better liquidity than those investing in a private company. Additionally, iSteelAsia, being a listed entity, will provide greater corporate governance and transparency to its shareholders.

### **PROPOSED CHANGE OF COMPANY NAME**

The iSteelAsia Board proposes that subject to completion of the Subscription, the English name of iSteelAsia be changed to “North Asia Strategic Holdings Limited”, and a new Chinese name of “北亞策略控股有限公司” be adopted for the purpose of identification only to reflect the change in shareholder base.

The change of company name and the adoption of Chinese name for the purpose of registration in Hong Kong is subject to, inter alia, the following conditions:

1. the passing of a special resolution by the Shareholders at the SGM to approve the change of the English name of iSteelAsia and the adoption of Chinese name for the purpose of registration in Hong Kong; and

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## LETTER FROM THE iSTEELASIA BOARD

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- the Registrar of Companies in Bermuda approving the proposed change of the English name of iSteelAsia.

The proposed change of name and the adoption of Chinese name for the purpose of registration in Hong Kong will not affect any of the rights of the Shareholders. All share certificates in respect of the New Shares bearing the current name of iSteelAsia will remain effective as documents of title and will be valid for trading, settlement and registration purposes. Upon the change of name becoming effective, any issue of share certificates thereafter will be in the new name and the securities of iSteelAsia will be traded on GEM under the new name. A further announcement will be made by iSteelAsia upon the proposed change of name becoming effective.

### SGM

Set out in this circular is a notice convening the SGM which will be held at Rooms 4902-8, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong on Thursday, 14 July 2005, at 3:00 p.m. at which resolutions will be proposed to approve the Proposals and the change of company name.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you intend to attend the meeting, you are requested to complete the accompanying form of proxy and return it in accordance with the instructions printed thereon as soon as possible to Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, and in any event not less than 48 hours before the time appointed for the holding of the SGM. Completion and return of a form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting should you so wish.

### RECOMMENDATIONS

Having considered the potential benefits which the Proposals may bring to the iSteelAsia Group and the advice given by Access Capital as contained in this circular, the iSteelAsia Directors (including the independent non-executive iSteelAsia Directors) believe that the Proposals are in the interests of iSteelAsia and the Shareholders as a whole. Accordingly, the iSteelAsia Directors recommend the Independent Shareholders to vote in favour of the resolutions to approve the Proposals.

Independent Shareholders are urged to read carefully the opinion of Access Capital and the advice of the Independent Board Committee before deciding on how to vote at the SGM.

### GENERAL

Your attention is drawn to the letters from Access Capital and the Independent Board Committee and the additional information set out in the appendices to this circular.

For and on behalf of  
**iSteelAsia Holdings Limited**  
**Andrew Cho Fai Yao**  
*Chairman*

*iSteelAsia*  
**iSteelAsia Holdings Limited**  
(亞鋼集團有限公司)\*  
*(Incorporated in Bermuda with limited liability)*  
(Stock Code: 8080)

20 June 2005

*To the Independent Shareholders*

Dear Sir or Madam,

As the Independent Board Committee, we have been appointed to advise you in connection with the Open Offer, the Subscription and the Whitewash Waiver, details of which are set out in the Letter from the iSteelAsia Board contained in the circular to the Shareholders dated 20 June 2005 (the “Circular”), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

Having considered the terms of the Proposals and the advice of Access Capital in relation thereto as set out on pages 44 to 65 of the Circular, we are of the opinion that the terms of the Proposals are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and Shareholders as a whole. We therefore recommend you to vote in favour of the resolutions to be proposed at the SGM to approve the Proposals.

Yours faithfully,  
*Independent Board Committee*  
**Kennedy Ying Ho Wong    Kenny King Ching Tam**  
*Independent non-executive iSteelAsia Directors*

\* For identification purpose only



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## LETTER FROM ACCESS CAPITAL

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*The following is the full text of the letter of advice to the Independent Board Committee and the Independent Shareholders from Access Capital prepared for incorporation in this circular.*



Suite 606, 6th Floor  
Bank of America Tower  
12 Harcourt Road  
Central  
Hong Kong

20 June 2005

*To: The Independent Board Committee and the Independent Shareholders of  
iSteelAsia Holdings Limited*

Dear Sirs,

**CAPITAL REORGANISATION,  
OPEN OFFER,  
SUBSCRIPTION OF NEW SHARES AND CONVERTIBLE BONDS  
AND  
APPLICATION FOR WHITEWASH WAIVER**

### **I. INTRODUCTION**

We refer to our appointment to advise the independent board committee (the “Independent Board Committee”) of iSteelAsia Holdings Limited (“iSteelAsia”) and the Shareholders other than VSC BVI, TN, Huge Top, Right Action Offshore Inc. and Mr. Tsang, their respective associates and Concert Parties and any other parties interested or involved in the Proposals (other than only by virtue of their interest in assured allotments pursuant to the Open Offer) (the “Independent Shareholders”) with regard to the proposals involving the Open Offer, the Subscription and the Whitewash Waiver.

The Proposals agreed between the Company and the Ajia Parties involve the expansion of iSteelAsia’s capital base and the introduction of the Ajia Parties as the new controlling shareholder of iSteelAsia. The Proposals include, inter alia, the Capital Reorganisation, the Open Offer, and the Subscription together with the Whitewash Waiver, all of which will require the approval of the Independent Shareholders at the SGM.

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## LETTER FROM ACCESS CAPITAL

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Details of the Proposals are contained in the “Letter from the iSteelAsia Board” of the circular to the Shareholders (and for information only, the holders of Options) dated 20 June 2005 (the “Circular”), of which this letter forms part. Terms used in this letter shall have the same meaning as those defined in the Circular, unless otherwise specified.

The following is a summary of the components of the Proposals:

- (i) the Capital Reorganisation, which involves (a) a consolidation of every 100 issued and unissued existing Shares of HK\$0.10 each into 1 Consolidated Share of HK\$10.00; (b) a reduction in the par value of each issued Consolidated Share from HK\$10.00 each to HK\$0.01 each by cancelling HK\$9.99 paid-up capital on each issued Consolidated Share; (c) a reduction of the nominal value of all the unissued Consolidated Shares of HK\$10.00 each to HK\$0.01 each within iSteelAsia’s authorised share capital, by way of (i) cancellation of all the authorised but unissued share capital of iSteelAsia, including the authorised but unissued share capital arising from the Capital Reduction, and (ii) an increase in the authorised share capital of iSteelAsia back to its original amount of HK\$400,000,000 by the creation of the requisite number of New Shares of HK\$0.01 each; and (d) a reduction of the entire amount standing to the credit of the share premium account of iSteelAsia as at 31 March 2005;
- (ii) the Open Offer to raise approximately HK\$2.5 million (before expenses) on the basis of an assured allotment of one Offer Share for each New Share held by the Qualifying Shareholders on the Record Date at the Offer Price of HK\$0.1566 per Offer Share. Qualifying Shareholders will be able to apply for Offer Shares in excess of their assured allotments;
- (iii) the Subscription of 63,856,960 New Shares by the Ajia Parties at a subscription price of HK\$0.1566 per New Share to raise approximately HK\$10 million and a further subscription of HK\$20 million of non-interest bearing Convertible Bonds, convertible into 127,713,920 New Shares at an initial conversion price of HK\$0.1566 per Conversion Share; and
- (iv) the Whitewash Waiver, which will be sought, in order that the Ajia Parties and their Concert Parties, who are independent of and not connected with iSteelAsia and its connected persons (and who save for Mr. Tsang’s personal interests in 50,940,000 Shares and his 5% interest in TN which in turn holds 163,367,600 Shares, currently have no interest in the issued share capital or other securities of iSteelAsia), are expected, immediately after the completion of the Capital Reorganisation, the Open Offer and the issue of the Subscription Shares at the completion of the Proposals (but before any exercise of the conversion rights attached to the Convertible Bonds, and on the assumption that there are no other

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## LETTER FROM ACCESS CAPITAL

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changes in the issued share capital of iSteelAsia after the Latest Practicable Date) to hold approximately 67.2% of iSteelAsia. As a result, an obligation to make a mandatory general offer on the part of the Ajia Parties will arise under the Takeovers Code, unless the Whitewash Waiver is obtained. Without the grant of the Whitewash Waiver, the Proposals will not become unconditional and will not proceed.

Independent Shareholders should note that as components of the Proposals, the Capital Reorganisation, the Open Offer and the Subscription are inter-conditional and are subject to further conditions as set in the “Letter from the iSteelAsia Board”, including the grant of the Whitewash Waiver.

### II. THE INDEPENDENT BOARD COMMITTEE

The iSteelAsia Board currently consists of two executive Directors, namely Mr. Yao Cho Fai, Andrew (Chairman) and Mr. Fu Hay Ching, Desmond; one non-executive Director, namely Mr. David Michael Faktor, and three independent non-executive Directors, namely Mr. Ma King Huen, Philip, Mr. Wong Ying Ho, Kennedy and Mr. Tam King Ching, Kenny.

Mr. Yao Cho Fai, Andrew, an executive Director, is involved in the Open Offer, the Subscription and the Whitewash Waiver, and is an obligor under the Deed of Indemnity; and Huge Top, a company controlled by Mr. Yao Cho Fai, Andrew, is a warrantor in the Subscription Agreement and has given certain indemnities and undertakings in favour of iSteelAsia under the Deed of Indemnity. Mr. Yao Cho Fai, Andrew, is also deemed to have control in VSC BVI, the Underwriter to the Open Offer and is a substantial shareholder of iSteelAsia. Mr. Fu Hay Ching, Desmond, an executive Director, is a salaried employee of iSteelAsia. Mr. Ma King Huen, Philip, an independent non-executive Director, is beneficially interested in approximately 0.47% of the issued non-voting preference Shares of a company, which in turn holds approximately 5.1% interest in API and of which Mr. Tsang Kwok Tai, Moses is a controlling shareholder. The above Directors are therefore not considered to be independent for the purposes of the Open Offer, the Subscription Agreement and the Whitewash Waiver. Furthermore, Mr. David Michael Faktor, is only a non-executive Director and is therefore not eligible under Rule 17.47(6)(a) of the GEM Listing Rules to act as a member of the Independent Board Committee.

Mr. Wong Ying Ho, Kennedy and Mr. Tam King Ching, Kenny, being independent non-executive Directors, have been appointed as members of the Independent Board Committee to consider the terms of the Open Offer, the Subscription and the Whitewash Waiver and to advise the Independent Shareholders in relation to the Open Offer, the Subscription and the Whitewash Waiver. In so doing, the Independent Board Committee will recommend to the Independent Shareholders as to how to vote at the SGM.

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## LETTER FROM ACCESS CAPITAL

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We have been appointed to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Open Offer, the Subscription, and the Whitewash Waiver are in the interests of iSteelAsia and the Independent Shareholders as a whole, and fair and reasonable so far as the Independent Shareholders are concerned; as well as to give our opinion in relation to the Open Offer, the Subscription, and the Whitewash Waiver, for the Independent Board Committee's consideration when making their recommendation to the Independent Shareholders.

### **III. BASIS AND ASSUMPTIONS OF THE ADVICE**

In formulating our advice, we have relied solely on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by iSteelAsia and/or the Directors. We have assumed that all such statements, information, opinions and representations contained or referred to in the Circular or otherwise provided or made or given by iSteelAsia and/or its senior management staff and/or the Directors and for which it is/they are solely responsible were true and accurate and valid at the time they were made and given and continue to be true and valid as at the date of the Circular. We have assumed that all the opinions and representations made or provided by the Directors and/or the senior management staff of iSteelAsia contained in the Circular have been reasonably made after due and careful enquiry. We have also sought and obtained confirmation from iSteelAsia and/or its senior management staff and/or the Directors that no material facts have been omitted from the information provided and referred to in the Circular.

We consider that we have reviewed all currently available information and documents which are available to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinions. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by iSteelAsia and/or its senior management staff and/or the Directors and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We have not, however, carried out an independent verification of the information provided, nor have we conducted an independent investigation into the business and affairs of iSteelAsia or any of its subsidiaries.

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## LETTER FROM ACCESS CAPITAL

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### IV. PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our recommendation, we have taken into consideration the following principal factors and reasons:

#### 1. Background to and reasons for the Proposals

##### *1.1 Financial track record of the Group*

Since the initial public offering of the shares of iSteelAsia in April 2000, the Group has recorded losses for five out of the last six financial years. The consolidated net assets of the Group have declined from approximately HK\$23.7 million as at 31 March 2001 to approximately HK\$12.6 million as at 31 March 2004, and to approximately HK\$2.1 million as at 31 March 2005.

As stated in the Group's annual report dated 9 June 2005, for the financial year ended 31 March 2005, the Group recorded an audited net loss of approximately HK\$10.4 million, which represents a decline of approximately 59.4% from the audited net loss recorded by the Group of approximately HK\$25.7 million for the financial year ended 31 March 2004.

However, as stated in the said annual report, when comparing the Group's operating profit for the year ended 31 March 2005 with the Group's operating profit for the year ended 31 March 2004 (excluding non-operating gains/losses such as the gain on disposal of investments of approximately HK\$0.9 million in financial year 2005, and the Group's impairment loss relating to an investment of HK\$20.41 million in financial year 2004), the Group's operating profit reflects a decrease of approximately HK\$3.65 million.

The Group's turnover of HK\$859.69 million for the year ended 31 March 2005 when compared to the previous financial year's turnover of approximately HK\$1,429 million represents of around 39.8%, or a decrease of HK\$569.76 million. This is principally due to steel price volatility and the adverse effects of the People's Republic of China (the "PRC") government's continuous macro-entrenchment policies designed to limit excessive investment in several overheated industries including the steel, aluminum, automobile, cement and real estate sectors.

Given the continued losses sustained by the Group in the financial year ended 31 March 2005, the trend of increasing interest rates in Hong Kong and the limited amount of audited consolidated shareholders' funds retained by the Group of approximately HK\$2.1 million, the iSteelAsia Board considers that urgent action is required to considerably strengthen

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## LETTER FROM ACCESS CAPITAL

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iSteelAsia's balance sheet as soon as possible, in order for the Group to continue to operate its business going forward. The iSteelAsia Board also considers it important for the Group to maintain a healthy liquidity position and a reasonable amount in shareholders' funds, in order for iSteelAsia to be able to compete effectively.

### ***1.2 Operating environment and prospects of the Existing Business***

As stated in the "Letter from the iSteelAsia Board", the Group has been facing many difficult challenges with the steel markets adversely affected by the lasting effects of the PRC government's continuous macro-entrenchment policies designed to limit excessive investment in several overheated industries including the steel industry. In order to achieve better allocation of the Group's financial resources, the Group has had to work hard to readjust its strategy and realign its business development focus by putting its efforts behind selected higher margin steel products with a view to bringing greater return to Shareholders.

The iSteelAsia Board considers that price volatility in the steel market will remain due to the macro-control measures executed by the PRC government, but the Directors have stated that iSteelAsia will continue on its path to increase shareholder value by enhancing its revenue base; and by controlling costs, and rationalising and streamlining its resources and corporate structure in order to optimise operational efficiency and build a sound customer base for future growth.

### ***1.3 Reasons for the Proposals***

In view of the abovementioned business environment and financial position of the Group, the iSteelAsia Board believes that under the Proposals, (i) the Capital Reorganisation will allow iSteelAsia to issue new shares above par value, as required by Bermuda law, and as such, allow iSteelAsia to conduct equity fund raising, as well as to eliminate iSteelAsia's accumulated losses (which stood at approximately HK\$161.6 million as at 31 March 2005); and (ii) the Open Offer and the Subscription will significantly enhance the Group's balance sheet and financial position, and allow the Group to leverage the experience and resources of the Ajia Parties, in order to strengthen its business prospects by exploring new investment opportunities so as to place the Group in a much better position to meet different challenges in the future.

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## LETTER FROM ACCESS CAPITAL

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In addition, due to the Group's financial performance over the years as mentioned in paragraph 1.1. above, and the difficult macro-environment in which the Group has had to operate, the Group has been unable to seek or secure alternate sources of funding whether that be from banks, or by means of share placements or rights issues (with third party underwriting) which would incur additional costs. Accordingly, the iSteelAsia Board considers that the Subscription and the Open Offer (which are part and parcel of the Proposals) are reasonable and in the interests of iSteelAsia and the Independent Shareholders as a whole.

Shareholders should note that although there will be a massive dilution effect of 92.8% upon completion of the Proposals (and assuming full conversion of the Convertible Bonds), Qualifying Shareholders will, via the Open Offer, have an opportunity to participate in the Proposals on equal terms to those offered to the Ajia Parties. Furthermore, as of yet, no concrete acquisition or investment targets have been identified by iSteelAsia (see Section 2 below), and for the reasons mentioned in paragraphs 1.1 and 1.2 above, the future earnings capability of iSteelAsia remains uncertain.

Nevertheless, after taking into account the financial track record of the Group, the reasons for the Proposals set out above, and the fact that there is no other feasible equity fund raising option available under the current financial position of the Group, we are of the view that it is justifiable for the Group to take action (such as those offered by the Proposals) with the objective of strengthening the financial position of the Group as well as of maintaining its competitiveness in the market. Accordingly, we are of the view that the Subscription (despite its massive dilutive effect on the Shareholders of 92.8% upon completion of the Proposals and assuming full conversion of the Convertible Bonds) as well as the Open Offer (which allows the Qualifying Shareholders to participate in the Proposals on equal terms to those offered to the Ajia Parties), both being part and parcel of the Proposals, are in the interests of the Shareholders and are fair and reasonable as far as the Shareholders are concerned.

### **2. Intended use of proceeds and future intentions of the Ajia Parties towards iSteelAsia**

The estimated proceeds (net of expenses) under the Proposals will be approximately HK\$30.2 million. Out of this amount, approximately HK\$4.2 million has been earmarked for general working capital for the Group, and approximately HK\$26 million will be used to finance future investments, should suitable investment opportunities arise.

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## LETTER FROM ACCESS CAPITAL

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Despite the fact that no specific investment targets have been identified as of yet, the iSteelAsia Board is of the view that the Subscription would give the Group financial flexibility and thus enable it to maintain a cash reserve necessary for capturing investment opportunities should they arise.

The Ajia Parties intend to nominate Mr. Chow Sing Nam, Savio, Mr. Cho Kim, Henry and Mr. Göran Sture Malm, as executive Directors after completion of the Proposals. Details of their respective backgrounds and experience are set out in the “Letter from the iSteelAsia Board”. The proposed new executive Directors are experienced in the evaluation and execution of strategic investments into businesses and assets, particularly in the consumer, industrial and technology/media/telecommunication sectors within the North Asia Market.

Subject to the results of the financial and operational review to be conducted by the Ajia Parties following the completion of the Proposals, as described in the “Letter from the iSteelAsia Board”, the Ajia Parties will consider investments for iSteelAsia, with a view to diversifying iSteelAsia from its narrow focus on the cyclical steel trading business into adopting an industrial holding company model. In so doing, the Ajia Parties intend for iSteelAsia to explore opportunities in the acquisition of strategic and possibly controlling stakes in undervalued companies with strong cash flows, in growth sectors such as the consumer, industrial, technology, media and telecommunications sectors. Should any such suitable opportunities arise, and subject to the abovementioned review, the Ajia Parties may also consider bringing in financial investors and raise capital for iSteelAsia (by way of placement of equity related instruments such as convertible notes or preference shares, which would not cause any immediate dilution to Shareholders upon issue), in order to cater for such investments. The Ajia Parties consider that the additional capital will provide financial resources to the Group, which will enable it to capture investment opportunities which have substance and which are meaningful in size.

The resultant level of dilution which may occur as a result of the abovementioned possible fund raising will depend on the ultimate investment structure employed, if and when such investments are made. In any event, should such potential financial investments involve in any way the issuance of new Shares, the Group would still be bound by all requisite disclosure and Shareholder approval requirements, which will further act to safeguard the interests of the Shareholders.

Having considered the recent financial performance of the Group and the view of the iSteelAsia Board regarding the tough operating environment and outlook facing the Group, we are of the view that the Proposals would allow the Group to considerably strengthen iSteelAsia’s financial position, which would in turn position the Group to participate in, if considered appropriate, future investment opportunities that expand and diversify the Group’s businesses beyond its current narrow focus.



### 3. Underlying rationale for the Capital Reorganisation, the Subscription and the Open Offer

#### 3.1 *The Capital Reorganisation*

Although we are not required to opine on the fairness and reasonableness of the Capital Reorganisation, it is nonetheless a component of and part and parcel of the Proposals. As such, we have set out below the rationale for the Capital Reorganisation for reference when considering the terms of the Open Offer, the Subscription and the Whitewash Waiver.

As stated in the “Letter from the iSteelAsia Board”, the par value of the existing Shares is HK\$0.10 each, which represents approximately 37% premium over the closing price of HK\$0.073 per Share as quoted on GEM on 19 April 2005, the last day on which the Shares were traded immediately prior to the publication of the Announcement. Similarly, the par value of the existing Shares also represents a premium of 355% to the closing price per Share of HK\$0.022 as at the Latest Practicable Date. Under Bermuda law, a company cannot issue shares at a discount to par. After implementation of the Capital Reorganisation and, in particular, the completion of the Proposals, there lies a greater opportunity for the market value of the New Shares to remain at a level above their par value of HK\$0.01 each (given that such value is the minimum quotable price permissible under the existing trading system of the Stock Exchange), thus allowing iSteelAsia to issue more existing New Shares and conduct equity fund raising, including the Open Offer and the Subscription.

Also stated in the “Letter from the iSteelAsia Board”, the Capital Reorganisation will allow the Company to off-set its accumulated losses of approximately HK\$161.6 million as at 31 March 2005, against sums credited to the contributed surplus account of iSteelAsia arising from the Capital Reduction and the Share Premium Reduction under the Capital Reorganisation, amounting to approximately HK\$170.76 million. The resultant surplus would be around HK\$9.0 million. By eliminating such accumulated losses, iSteelAsia’s capital structure will be streamlined and simplified. Despite the fact that the entire accumulated losses would be eliminated by the Capital Reorganisation, Shareholders should note, as stated in the “Letter from the iSteelAsia Board”, that iSteelAsia aims to preserve financial resources for the future development of its businesses, and so has no intention of distributing dividends from the abovementioned surplus following the completion of the Capital Reorganisation.

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## LETTER FROM ACCESS CAPITAL

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The New Shares after completion of the Capital Reorganisation will rank pari passu in all respects with each other. iSteelAsia will apply to the GEM Listing Committee for the listing of, and permission to deal in, the New Shares in issue upon the Capital Reorganisation taking effect.

Except for the expenses incurred in relation to the Capital Reorganisation and the fractional Consolidated Shares not issued to the Shareholders, the implementation of the Capital Reorganisation will not, by itself, alter the net asset value, business operations, or financial position of iSteelAsia or the proportionate interests of the Shareholders.

In view of the fact that the Capital Reorganisation allows for iSteelAsia to issue New Shares, which is a pre-condition for conducting equity fund raising exercises (i.e. the Subscription and the Open Offer), and the fact that the Capital Reorganisation will at the same time eliminate the iSteel Asia's accumulated losses to date, the iSteelAsia Board is of the view that the implementation of the Capital Reorganisation is in the interests of iSteelAsia and the Independent Shareholders as a whole.

### **3.2    *The Subscription***

As stated in the "Letter from the iSteelAsia Board", the terms of the Subscription were negotiated between the parties on an arm's length basis. The respective commercially agreed issue price of the Subscription Shares and the Convertible Bonds of HK\$0.1566 per New Share, was set with reference to the unaudited net asset value ("NAV") of the Group as at 31 December 2004 of approximately HK\$4.8 million, less an allowance for the estimated expenses of the Proposals of approximately HK\$2.3 million.

The above basis also reflects the perspective of an investor who is prepared to commit a substantial cash investment to the Group's future and who would wish to see that such investment would not be eroded by any costs which the Group may incur prior to the completion of the investment.

Therefore, under the terms of the Proposals, Huge Top has provided certain indemnities under the Deed of Indemnity, which would serve to mitigate the future downside risk of the Existing Business, with the view of ensuring that the consolidated NAV attributable to the Existing Business would be maintained at HK\$5 million over certain agreed dates, as well as to indemnify the Group against any possible losses in respect of a notified Potential Claim in connection with the Existing Business (including any member of the i-AsiaB2B Group) not exceeding HK\$30 million.

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## LETTER FROM ACCESS CAPITAL

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We have discussed with the iSteelAsia Board the abovementioned underlying rationale for the basis of the terms of the Subscription. Given the difficult operating environment of the Existing Business and its inherent business risks as mentioned in paragraph 1.2 above, the iSteelAsia Board considers it unlikely that the Group could attract the Ajia Parties or any outside investors to invest any significant funding into the Group without the comfort and assurance that (i) the value of their investments would not be eroded by any pre-investment expenditure incurred by the Group, and that (ii) there be some downside protection against future losses of the Existing Business under the Deed of Indemnity afforded to the Group.

By investing in the Group at the present time, and given the comfort available under the Deed of Indemnity, the Ajia Parties are, along with the Shareholders, exposing themselves to the potential business risks and challenges of the Group, and at the same time, enjoying the potential protection given under the Deed of Indemnity, in a pro rata basis, with respect to their respective shareholdings in iSteelAsia from time to time. Such protection would not be available in the absence of the investment by the Ajia Parties.

In view of the reasons explained above, we believe that it is justifiable to implement the Subscription with the Deed of Indemnity, and that such arrangement is also fair and reasonable and is in the interests of iSteelAsia and the Independent Shareholders as a whole.

### **3.3    *The Open Offer***

The issue price of the Offer Shares under the Open Offer is equal to the issue price of the Subscription Shares under the Subscription. The Open Offer has been underwritten by VSC BVI at a nominal underwriting fee of HK\$1,000 (equivalent to approximately 0.05% of the value of the Shares underwritten under the Open Offer). The iSteelAsia Board considers that the Open Offer allows the existing Shareholders to participate in the recapitalisation of iSteelAsia at the same issue price for the Subscription Shares as the Ajia Parties.

As mentioned in paragraph 1.3 above, we concur with the view of the iSteelAsia Board that due to the Group's financial performance over the years, and the difficult macro-environment in which the Group has had to operate, it has been difficult for the Group to seek alternate sources of funding whether that be from banks, or by means of share placements or rights issues (with third party underwriting).

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## LETTER FROM ACCESS CAPITAL

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As the Open Offer is part and parcel of the Proposals and all open offers must be fully underwritten (under normal circumstances) pursuant to Rule 7.24 of the Listing Rules, we believe that it is acceptable for VSC BVI, a wholly-owned subsidiary of Van Shung Chong, the existing single largest Shareholder and a major creditor of iSteelAsia, to act as the underwriter of the Open Offer for a modest underwriting fee (0.05% of the value of the Shares underwritten under the Open Offer as compared to the market practice of 2% to 3% of the value being underwritten) so as to facilitate the implementation of the Proposals.

Based on the above, we are of the view that the terms of the Open Offer are fair and reasonable.

#### **4. Terms of the Open Offer and the Subscription**

The following sets out our assessment of the terms of the Open Offer and the Subscription.

##### ***4.1 The issue price for the Subscription and the Open Offer***

According to the iSteelAsia Board, the commercially agreed issue price of approximately HK\$0.1566 per New Share under the Subscription is set with reference to the NAV of the Group as at 31 December 2004, less an allowance for the estimated expenses of the Proposals of approximately HK\$2.3 million.

The issue price of HK\$0.1566 per New Share represents:

- (i) a discount of approximately 95.8% to the theoretical ex-entitlement price of HK\$3.7283 per New Share (based on the closing price of HK\$0.073 per Share as quoted on GEM on 19 April 2005, being the last day on which the Shares were traded immediately preceding the publication of the Announcement);
- (ii) a discount of approximately 47.8% to the unaudited net asset value per New Share as at 31 December 2004 (before any allowance for the expenses of the Proposals) of approximately HK\$0.30;
- (iii) a premium of approximately 17.0% to the audited net asset value per New Share as at 31 March 2005 (before any allowance for the expenses of the Proposals) of approximately HK\$0.1338;

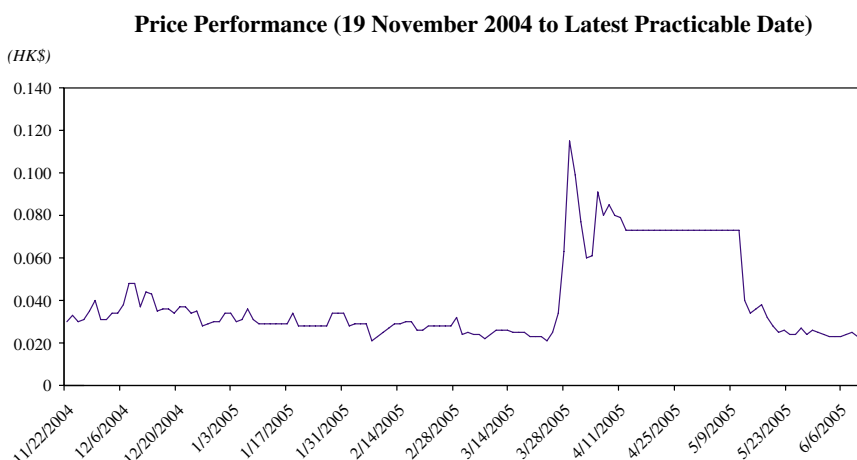
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## LETTER FROM ACCESS CAPITAL

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- (iv) a discount of approximately 97.9% to the closing price of HK\$7.30 per New Share (based on the closing price of HK\$0.073 per Share as quoted on GEM on 19 April 2005);
- (v) a discount of approximately 98.0% to the average closing price of HK\$7.85 per New Share (based on the average closing price of HK\$0.0785 per Share as quoted on GEM for the last ten trading days up to and including 19 April 2005);
- (vi) a discount of approximately 92.9% to the closing price of HK\$2.20 per New Share (based on the closing price of HK\$0.022 per Share as quoted on GEM on the Latest Practicable Date); and
- (vii) a discount of approximately 93.5% to the average closing price of HK\$2.40 per New Share (based on the average closing price of HK\$0.024 per Share as quoted on GEM for the last ten trading days up to and including the Latest Practicable Date).

In appraising the issue price per New Share under the Subscription and the Open Offer, we would like to draw Shareholders' attention to the following chart, which sets out the closing price performance of the Shares as quoted on GEM from 19 November 2004 (i.e. six months prior to 19 April 2005, the last trading date immediately prior to the suspension of the Shares before the issue of the Announcement) to the Latest Practicable Date:



Source: Bloomberg

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## LETTER FROM ACCESS CAPITAL

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Shareholders should note that the Shares traded within a narrow range of HK\$0.02 to HK\$0.04 per Share between 22 November 2004 to 30 March 2005 (with occasional and exceptional price movement of between HK\$0.043 to HK\$0.048 during 7 December 2004 to 13 December 2004) and with an average daily turnover for this period of 379,644 Shares (representing approximately 0.02% of the existing issued share capital of iSteelAsia or approximately 0.05% of the Share held in public hands). There were, during the said period, altogether, 37 trading days where there was no trading in the Shares. The above stated trading range for the Shares translates into a theoretical historical price range of approximately HK\$2.0 to HK\$4.0 per New Share (with an equivalent occasional and exceptional price movement of between HK\$4.3 to HK\$4.8 per New Share during 7 December 2004 to 13 December 2004).

Following iSteelAsia's announcement of 30 March 2005 that discussions between one of its substantial shareholders and the potential investor with respect to certain possible capital restructuring and/or fund raising exercise in iSteelAsia was still in progress, the Share price and trading volume of the Shares increased substantially to a high of HK\$0.091 per Share on 12 April 2005 (equivalent to HK\$9.1 per New Share) with 31,954,000 Shares having changed hands on that same day (representing approximately 2.00% of the existing issued share capital of iSteelAsia or approximately 3.90% of the Shares held in public hands). The Shares then dropped to HK\$0.073 per Share (equivalent to HK\$7.3 per New Share) on 19 April 2005 (the last trading day prior to suspension of trading in the Shares pending the release of the Announcement).

Following the publication of the Announcement, the Share price fell to HK\$0.04 per Share (equivalent to HK\$4.0 per New Share) on 20 May 2005, and thereafter continued on a downward trend and for the next five trading days, trading within in the range of HK\$0.034 to HK\$0.028 per Share (equivalent to HK\$3.4 to HK\$2.8 per New Share) with an average daily turnover for this period of 12,011,761 Shares (representing approximately 0.75% of the existing issued share capital of iSteelAsia or approximately 1.47% of the Share held in public hands).

Given the illiquidity in the trading volume of the Shares as described above, we are of the view that the trading price range may not necessarily be a reasonable representative of the price level in which the Independent Shareholders can expect to realise their shareholdings, if they elect to dispose of their Shares in the market. It is also uncertain as to whether in the absence of the Proposals, the price of the Shares may trade at a level close to that of the pre-Announcement price level.

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## LETTER FROM ACCESS CAPITAL

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However, and as mentioned earlier in this letter, the iSteelAsia Board is of the view and we are also of the view that the commercially agreed basis of the issue price under the Subscription of HK\$0.1566 per New Share, set with reference to the NAV of the Group as at 31 December 2004, less an allowance for the estimated expenses of the Proposals of approximately HK\$2.3 million, is fair and reasonable, as well as in the interests of iSteelAsia and the Independent Shareholders as a whole.

### 4.2 *The Convertible Bonds*

The following summarises the key terms of the Convertible Bonds:

<b>Coupon:</b>	Zero coupon
<b>Redemption:</b>	Holders will have the right to request iSteelAsia to redeem (in whole or in part) the outstanding Convertible Bonds on a date which is five business days after 30 November 2007. Unless previously converted, the outstanding principal amount of the Convertible Bonds will be redeemed by iSteelAsia at par on the date which is 5 years after the date of issue or such later date as may be agreed between the holders of the Convertible Bonds and iSteelAsia
<b>Initial conversion price:</b>	HK\$0.1566
<b>Number of New Shares issuable upon full conversion:</b>	127,713,920 New Shares (at the initial conversion price)
<b>Interest on overdue amount:</b>	7% per annum, calculated on the basis of the actual days elapsed in a 365 day year, if iSteelAsia fails to meet all or any part of the redemption as described below
<b>Security:</b>	Unsecured

#### *Restriction on transfer of the Convertible Bonds*

The Convertible Bonds are being issued on an unsecured basis and do not carry any voting rights. The Convertible Bonds are not listed on any stock exchange and are not transferable other than to the Ajia Parties, Mr. Tsang and/or to certain members of their respective related parties.

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## LETTER FROM ACCESS CAPITAL

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### *Basis of the initial conversion price*

For reasons discussed in the paragraph headed “3. Underlying rationale for the Capital Reorganisation, the Subscription and the Open Offer” above, and under the current circumstances facing iSteelAsia, the issue price of the Subscription Shares and the initial conversion price of the Convertible Bonds of HK\$0.1566 per New Share have been arrived at with reference to the NAV for the Group as at 31 December 2004 less an allowance for estimated expenses in connection with the Proposals of approximately HK\$2.3 million. In return for the Subscription, iSteelAsia will be offered certain downside protection on the Existing Business by virtue of the Deed of Indemnity, which will expire on 30 September 2007. As set out above, holders of the Convertible Bonds will have the right to redeem their outstanding Convertible Bonds (in whole or in part) 5 business days after 30 November 2007, up until maturity, which will be 5 years from the date of issue of the Convertible Bonds.

Shareholders should note that given the consecutive loss making history of the Group and the uncertainties vis-à-vis the business outlook of the Existing Business, the iSteelAsia Board is not in a position to predict when the Group will achieve profitability. Accordingly, we concur with the iSteelAsia Board that it is not possible to determine the initial conversion price of the Convertible Bonds by reference to any current or future earnings projection of the Group. Indeed, the iSteelAsia Board recognises that as part of the Proposals, iSteelAsia and all the Shareholders would benefit from the provisions under the Deed of Indemnity. Accordingly, we are of the opinion that it is fair and reasonable to determine the commercially agreed initial conversion price of the Convertible Bonds of HK\$0.1566 per New Share, with reference to the NAV of the Group as at 31 December 2004, less an allowance for estimated expenses in connection with the Proposals of HK\$2.3 million.

### *Redemption*

The Company considers the Convertible Bonds to be a form of long-term unsecured financing from the Subscribers, with a maximum term of a five year maturity.

Given the illiquid nature of the Convertible Bonds, the iSteelAsia Board considers the abovementioned early redemption feature under the Convertible Bonds to be acceptable, for when iSteelAsia will no longer be entitled to enjoy the benefits under the Deed of Indemnity, which will expire on 30 September 2007. We concur with this view.



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## LETTER FROM ACCESS CAPITAL

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### *Interest rate*

The Convertible Bonds will carry a zero coupon rate of interest. Any unpaid amount due after redemption/maturity will be subject to an interest of 7% per annum.

iSteelAsia's current cost of funds with its major trade creditor, the Van Shung Chong group of companies, lies within the region of approximately 2% per annum, and its cost of funds from third-parties, namely banks, was approximately 1.8% per annum. Given that the Convertible Bonds, are unsecured, carry no interest and therefore no on-going interest service cost (save for any interest arising under overdue payment of the Convertible Bonds following redemption), and that they do not carry any kind of premium redemption feature at maturity, we are of the view that the zero coupon rate of interest vis-à-vis the Convertible Bonds is favorable to and in the interest of the iSteelAsia.

Furthermore, given the recent financial performance of the Group, the iSteelAsia Board is of the view that it would not be possible for iSteelAsia to secure alternate equivalent long-term unsecured financing from banks; and taking into consideration iSteelAsia's cost of funds, which, as mentioned above, is around 1.8% to 2.0%, and considering the general rising interest environment, as well as the normal bank default interest rate of around 5% to 7% prevalent in the market, the Directors are of the view that the Convertible Bond interest rate for any interest arising under the overdue payment of the Convertible Bonds to be fair and reasonable. Accordingly, we are also of the view that the Convertible Bond interest rate for any interest arising under the overdue payment of the Convertible Bonds to be fair and reasonable as far as the Shareholders are concerned.

### *Security ranking of the Convertible Bonds*

Unless the Convertible Bonds have been previously converted into New Shares or redeemed as described above, the Convertible Bonds will be redeemed on their final maturity in 2009. Shareholders should note that as at 31 March 2005, iSteelAsia recorded a total amount of indebtedness of approximately HK\$142.4 million due to banks and to Van Shung Chong (including secured indebtedness of approximately HK\$24.4 million). In the event that iSteelAsia is not able to meet its redemption obligations, any enforcement of the redemption rights of the holders Convertible Bonds (e.g. in a creditors' liquidation of iSteelAsia) would only be met out of the then available funds of the Group, after satisfying the secured creditors, and the Convertible Bonds will rank pari passu with other unsecured creditors of the Group.

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## LETTER FROM ACCESS CAPITAL

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In summary, we consider that given the current position of iSteelAsia and the analysis of the terms of the Open Offer and the Subscription as set out above, the terms of the Subscription and the Convertible Bonds are in the interests of iSteelAsia and the Independent Shareholders as a whole and are fair and reasonable in so far as the Independent Shareholders are concerned.

### **5. Expected possible financial effects on the Group**

#### **5.1 *With respect to net asset value***

The audited consolidated NAV of the Group as at 31 March 2005 was approximately HK\$2.1 million. The estimated cost for implementing the Proposals is approximately HK\$2.3 million, which would be borne by iSteelAsia and the abovementioned NAV would be reduced to a net liability of approximately HK\$200,000 following the completion of the Capital Reorganisation.

However, Shareholders should note that under the Deed of Indemnity, Huge Top has given certain indemnities and undertakings in favour of iSteelAsia including (a) the undertakings to procure that the Existing Business is managed and conducted in such a manner so as to cause the consolidated net asset value of i-AsiaB2B Group to equal or exceed HK\$5,000,000 after the completion of the Proposals and (b) an indemnity on any losses which iSteelAsia may be suffered under any Potential Claim not exceeding HK\$30,000,000. We, therefore, are of the view that these undertakings, provide certain protection vis-a-vis the future NAV level of the Group.

#### **5.2 *With respect to earnings***

As the Convertible Bonds carry a zero-coupon rate of interest, there will not be any on-going interest service costs associated with the Convertible Bonds, save for any interest arising under overdue payment of the Convertible Bonds following redemption.

iSteelAsia has not made any forecast on its future profitability and accordingly, it would not be possible to quantify the possible financial impact on the Group's profitability following the completion of the Proposals. However, as mentioned above and we believe, the Deed of Indemnity would effectively help to insulate iSteelAsia from potential losses which may be incurred by the Existing Business for the relevant period.

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## LETTER FROM ACCESS CAPITAL

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### **5.3 *With respect to liquidity and working capital position of the Group***

As at 31 March 2005, the Group had cash and bank deposits of HK\$29.3 million, compared with HK\$89.9 million for the period ended 31 March 2004, out of which bank deposits of approximately HK\$16.1 million was pledged as collateral for the Group's banking facilities, as described below. The Proposals would effectively increase the cash resources of the Group by approximately HK\$30.2 million.

The expected increase in the cash balance of the Group will considerably strengthen the liquidity of the Group. The iSteelAsia Board expects that after the implementation of the Proposals, the Group will continue to maintain its normal relationship with its creditors (including the Van Shung Chong group of companies, the Group's major trade creditor and largest shareholder).

The Group relies substantively on VSC by leveraging off VSC's aggregate purchasing power, which affords the Group favorable terms from suppliers. As at 31 March 2005, the Group had an outstanding balance due to VSC in excess of HK\$118 million, as compared to an amount in excess of HK\$205 million as at 31 March 2004.

### **6. Whitewash Waiver and comparison with other recent transactions involving whitewash waiver (in particular, dilution effect on shareholdings)**

Immediately upon completion of the Proposals but before the exercise of the Convertible Bonds, the Ajia Parties will be interested in 64,366,360 New Shares, representing approximately 67.2% of the issued share capital of iSteelAsia. Pursuant to the Takeovers Code, the Ajia Parties would then be required under Rule 26 to make an unconditional general offer to the Shareholders for all the Shares not already owned or agreed to be acquired by the Ajia Parties.

The Ajia Parties has made an application to the Executive for the Whitewash Waiver.

The Whitewash Waiver is subject to approval by the Independent Shareholders by way of a poll at the SGM.

The completion of the Proposals is conditional upon, inter alia, obtaining the Whitewash Waiver, and this condition cannot and will not be waived. In the event that the Whitewash Waiver is not approved by the Independent Shareholders, the Proposals will lapse.

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## LETTER FROM ACCESS CAPITAL

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We have also compared the shareholding dilution effects under the Proposals with 2 other recent transactions announced in 2005, both of which involved substantial cash subscriptions of shares and whitewash waiver applications to exempt the respective investors from making general offers for the shares in the respective investee companies, namely, EVI Education Asia Limited and Kamboat Group Company Limited. In each case, shareholders of the relevant companies experienced massive dilution, yet each of these transactions was successfully approved by their respective shareholders. Although there were 7 whitewash applications between January 2004 to June 2005, only 2 of them are examples of successful whitewash waiver applications involving pure cash subscriptions for new shares, without involving any debt restructuring or conversion, or to fund an acquisition. Hence these 2 examples are the most relevant to iSteelAsia's situation. Set out in the following table are certain relevant data on these transactions.

Company (stock code)	Date of announcement of fund raising exercise	Issue price (HK\$)	Funds raised (HK\$ million)	Discount of subscription price to closing price as at last trading date before announcement	Discount of subscription price to 10-day average closing price up to last trading day	Dilution effect on shareholdings of existing shareholders*
				(%)	(%)	
EVI Education Asia Ltd. (8090)	26 January 2005	0.025	107.5	(58.3)	(51.5)	(53.1)
Kamboat Group Company Ltd. (318)	22 March 2005	0.01	54.0	(97.5)	(97.5)	(98.2)
iSteelAsia	19 April 2005	0.1566	30.2	(97.9)	(98.0)	(92.8)

\* Assuming full exercise of all share options and convertible instruments.

In whitewash applications involving debt-equity conversions, new funds raised are pre-allocated and immediately utilised upon completion of such transactions. However, in the case of pure cash subscriptions, funds raised have not been committed or used and so remain on the company's balance sheet, and so the relevant incoming investor can typically demand more aggressive terms including a high level of dilution, as is the case with iSteelAsia. However, given that the Group's consolidated pre-transaction NAV has already fallen to HK\$2.1 million as at 31 March 2005, an even higher dilution level, such as the one reached in the case of Kamboat Group Company Limited, can be expected for iSteelAsia.

Shareholders should note that the respective latest published net asset values of EVI Education Asia Limited (approximately HK\$18.9 million as at 30 September 2004) and Kamboat Group Company Limited (approximately HK\$70.8 million as

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## LETTER FROM ACCESS CAPITAL

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at 30 April 2004), at the time of their respective deal announcements, were substantially higher than that of iSteelAsia. As stated above, the Group's consolidated net asset value has fallen to HK\$2.1 million as at 31 March 2005. Shareholders should also note that the Subscription was structured with the added support of certain downside protection vis-a-vis the Group's consolidated NAV after completion of the Proposals under the Deed of Indemnities as a condition precedent.

Bearing in mind the Group's resultant negative NAV upon completion of the Capital Reorganisation; the above mentioned downside protection afforded to Shareholders relating to Group's consolidated NAV under Deed of Indemnities; the fact that the Subscription price was set in relation to the Group's NAV; and also the difficult market conditions within the steel sector as well as the Group's current financial position; we are of the view that a comparatively higher level of dilution vis-a-vis the above precedents is expected.

Having considered the financial position of the Group and the uncertain outlook of its operations, we are of the view that the dilution effect of the Proposals is acceptable under the circumstances, and is also reasonable with regard to the data of the abovementioned precedent transactions. Accordingly, we are of the view that the granting of the Whitewash Waiver is fair and reasonable so far as the Independent Shareholders are concerned, and is in the interests of iSteelAsia and the Independent Shareholders as a whole.

### V. RECOMMENDATION

In making our recommendation we have considered the above principal factors and, in particular, taken into account the following:

- (i) the background of the Group, including its financial and prospects of the Existing Business;
- (ii) the reasons for and benefits of the Proposals;
- (iii) the intended use of proceeds and future intentions of the Ajia Parties;
- (iv) the terms of the Subscription (including the Convertible Bonds) and the Open Offer;
- (v) the possible financial effects on the Group upon completion of the Proposals; and
- (vi) the Whitewash Waiver and the comparables.

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## LETTER FROM ACCESS CAPITAL

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In summary, and after taking into account the factors and reasons mentioned in this letter and based on the information provided and the representations made to us, we consider the terms of the Open Offer, the Subscription and the Whitewash Waiver to be fair and reasonable so far as the Independent Shareholders are concerned; and that the Open Offer, the Subscription and the Whitewash Waiver are in the interests of iSteelAsia and the Independent Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the relevant resolution(s) which will be proposed at the SGM to approve the Open Offer, the Subscription and the Whitewash Waiver.

Yours faithfully,  
For and on behalf of  
**ACCESS CAPITAL LIMITED**  
**Jeanny Leung**  
*Managing Director*

1. SHARE CAPITAL

The authorised and issued share capital of iSteelAsia as at the Latest Practicable Date were as follows:

HK\$

Authorised:

4,000,000,000	Shares	400,000,000
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Issued and fully paid:

1,596,887,805	Shares	159,688,780
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The authorised and issued share capital of iSteelAsia following completion of the Proposals will be as follows:

HK\$

Authorised:

40,000,000,000	New Shares	400,000,000
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Issued and fully paid New Shares:

15,968,878	New Shares arising from the Capital Reorganisation	159,688
15,968,878	Offer Shares to be issued under the Open Offer	159,688
63,856,960	Subscription Shares to be issued under the Subscription	638,569
95,794,716		957,945

All the Shares rank pari passu in all respects including all rights as to dividends, voting and capital. All the New Shares to be in issue following completion of the Proposals will rank pari passu in all respects with each other including as regards to dividends, voting and return of capital.

The Company has issued 297,659 Shares during the period from the financial year ended 31 March 2005 to the Latest Practicable Date.

## APPENDIX I FINANCIAL INFORMATION ON THE iSTEELASIA GROUP

Under the terms of the Company's share option scheme approved by the Shareholders on 13 April 2000 (the "Old Scheme"), the iSteelAsia 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 20 April 2000 and was terminated on 10 June 2002. At the SGM, an ordinary resolution will be proposed to cancel all Options granted under the Old Scheme.

A new share option scheme has been adopted by the Company since 10 June 2002 (the "New Scheme") to replace the Old Scheme to comply with the current statutory requirements. The Company may grant options to the participants as set out in the New Scheme. Up to the Latest Practicable Date, no options have been granted pursuant to the New Scheme. Any options to be granted under the New Scheme will be unlisted and will represent physically settled equity derivatives.

Save for the Options disclosed above, as at the Latest Practicable Date, the Company did not have any outstanding options, warrants or other securities convertible into Shares.

### 2. SUMMARY OF CONSOLIDATED PROFIT AND LOSS ACCOUNT

The following is a summary of the audited consolidated profit and loss accounts of the iSteelAsia Group for each of the three years ended 31 March 2005:

	Year ended 31 March		
	2003	2004	2005
	HK\$'000	HK\$'000	HK\$'000
Turnover	811,142	1,429,443	859,685
Profit/(Loss) before taxation	8,464	(25,042)	(4,497)
Taxation	<u>(1,840)</u>	<u>(889)</u>	<u>(5,946)</u>
Profit/(Loss) before minority interests	6,624	(25,931)	(10,443)
Minority interests	<u>(34)</u>	<u>220</u>	<u>—</u>
Profit/(Loss) attributable to Shareholders	<u>6,590</u>	<u>(25,711)</u>	<u>(10,443)</u>
Profit/(Loss) per Share (HK cents)			
— Basic	<u>0.42</u>	<u>(1.63)</u>	<u>(0.65)</u>

The iSteelAsia Group did not have any extraordinary or exceptional items for each of the above-mentioned year and did not declare any dividend in respect of the three years ended 31 March 2005. For each of the three years ended 31 March 2005, the auditors of



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## APPENDIX I      FINANCIAL INFORMATION ON THE iSTEELASIA GROUP

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iSteelAsia, PricewaterhouseCoopers, have expressed opinions that the financial statements of the iSteelAsia Group gave a true and fair view of the state of affairs of the iSteelAsia as at the relevant year end dates.

### 3. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following is the reproduction of the audited financial statements of the iSteelAsia Group for the year ended 31 March 2005 as extracted from the iSteelAsia's annual report 2005:

#### **Consolidated Profit and Loss Account**

*For the year ended 31st March 2005*

		<b>2005</b>	<b>2004</b>
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	3	859,685	1,429,443
Cost of sales		(828,580)	(1,390,654)
Gross profit		31,105	38,789
Other revenue	3	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	13	911	—
Impairment loss of an investment		—	(20,414)
Loss on disposal of subsidiaries, net	25(c)	(63)	—
Operating profit/(loss)	4	559	(17,120)
Finance costs	5	(5,056)	(7,922)
Loss before taxation		(4,497)	(25,042)
Taxation	8	(5,946)	(889)
Loss after taxation but before minority interests		(10,443)	(25,931)
Minority interests		—	220
Loss attributable to shareholders	9	(10,443)	(25,711)
Loss per share — Basic	10	HK(0.65) cents	HK(1.63) cents

# APPENDIX I FINANCIAL INFORMATION ON THE iSTEELASIA GROUP

## Balance Sheets

As at 31st March 2005

		Consolidated		Company	
		2005	2004	2005	2004
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Non-current assets</b>					
Fixed assets	11	1,411	2,922	—	—
Website development costs	12	21	43	—	—
Long-term investment	13	780	2,136	—	2,136
Deferred tax assets	20	—	4,483	—	—
Investments in subsidiaries	14	—	—	1	1
		<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total non-current assets		<u>2,212</u>	<u>9,584</u>	<u>1</u>	<u>2,137</u>
<b>Current assets</b>					
Short-term investment	13	—	23,400	—	—
Inventories	15	94,936	131,082	—	—
Deposits for purchase of inventories		27,387	89,321	—	—
Prepayments, deposits and other receivables		7,893	12,735	30	53
Accounts and bills receivable	16	3,977	31,193	—	—
Pledged bank deposits	17	16,080	34,439	13,049	13,645
Cash and other bank deposits	17	13,263	55,433	12	3,961
		<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total current assets		<u>163,536</u>	<u>377,603</u>	<u>13,091</u>	<u>17,659</u>
<b>Current liabilities</b>					
Short-term bank borrowings	18	(24,360)	(51,426)	—	—
Accounts and bills payable	2 & 19	(121,018)	(284,445)	—	—
Other payables		(1,807)	(517)	—	—
Accruals		(5,634)	(2,082)	(71)	(50)
Receipts in advance		(5,256)	(30,065)	—	—
Taxation payable		(5,536)	(6,007)	—	—
		<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total current liabilities		<u>(163,611)</u>	<u>(374,542)</u>	<u>(71)</u>	<u>(50)</u>
Net current (liabilities)/assets		<u>(75)</u>	<u>3,061</u>	<u>13,020</u>	<u>17,609</u>
<b>Non-current liabilities</b>					
Amounts due to subsidiaries	14	—	—	(3,907)	(4,702)
		<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net assets		<u>2,137</u>	<u>12,645</u>	<u>9,114</u>	<u>15,044</u>

APPENDIX I

FINANCIAL INFORMATION ON THE iSTEELASIA GROUP

		Consolidated		Company	
		2005	2004	2005	2004
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Representing:					
Share capital	21	159,659	159,638	159,659	159,638
Reserves	24	(157,522)	(146,993)	(150,545)	(144,594)
Shareholders' equity		2,137	12,645	9,114	15,044

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## APPENDIX I      FINANCIAL INFORMATION ON THE iSTEELASIA GROUP

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### Consolidated Cash Flow Statement

For the year ended 31st March 2005

		2005	2004
	Note	HK\$'000	HK\$'000
<b>Operating activities</b>			
Net cash (outflow)/inflow			
generated from operations	25(a)	(52,162)	55,554
Interest received		580	657
Interest paid		(5,056)	(7,922)
Mainland China enterprise			
income tax paid		(2,096)	(704)
Mainland China enterprise			
income tax refunded		473	324
		<hr/>	<hr/>
Net cash (outflow)/inflow			
from operating activities		(58,261)	47,909
		<hr/>	<hr/>
<b>Investing activities</b>			
Dividend received from an investment		659	421
Increase in long-term investment		(780)	—
Proceeds from disposal of investments		26,447	—
Proceeds from disposal of subsidiaries,			
net of cash disposed of	25(c)	(1,396)	—
Additions of fixed assets		(191)	(1,021)
Proceeds from disposal of fixed assets		129	142
Additions of website development costs		(5)	(17)
Decrease/(Increase) in pledged			
bank deposits		18,359	(34,439)
Translation adjustments		(86)	(48)
		<hr/>	<hr/>
Net cash inflow/(outflow)			
from investing activities		43,136	(34,962)
		<hr/>	<hr/>
Net cash (outflow)/inflow			
before financing activities		(15,125)	12,947
		<hr/>	<hr/>

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**APPENDIX I                      FINANCIAL INFORMATION ON THE iSTEELASIA GROUP**


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		<b>2005</b>	<b>2004</b>
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Financing activities</b>	<i>25(b)</i>		
Issue of ordinary shares		21	68
New short-term bank loans		6,615	68,480
Repayment of short-term bank loans		(9,450)	(62,857)
Net decrease in trust receipts bank loans		(24,231)	(11,331)
Distribution paid to minority shareholders of a subsidiary		—	(1,114)
		<u>          </u>	<u>          </u>
Net cash outflow from financing activities		<u>(27,045)</u>	<u>(6,754)</u>
 (Decrease)/Increase in cash and cash equivalents		 (42,170)	 6,193
 Cash and cash equivalents, beginning of year		 <u>55,433</u>	 <u>49,240</u>
 Cash and cash equivalents, end of year	<i>25(d)</i>	 <u><u>13,263</u></u>	 <u><u>55,433</u></u>

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**APPENDIX I                      FINANCIAL INFORMATION ON THE iSTEELASIA GROUP**


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**Consolidated Statement of Changes in Equity**
*For the year ended 31st March 2005*

	<i>Note</i>	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Balance as at beginning of year		12,645	13,351
Loss attributable to shareholders	24	(10,443)	(25,711)
Translation adjustments	24	(86)	(48)
Change in fair value of a long-term investment	24	548	1,451
Realisation of investment revaluation reserve upon disposal of a long-term investment	24	(548)	—
Investment revaluation reserve transferred to profit and loss account upon recognition of impairment loss of a long-term investment		—	20,414
Proceeds from issue of ordinary shares	21	<u>21</u>	<u>3,188</u>
Balance as at end of year		<u><u>2,137</u></u>	<u><u>12,645</u></u>

## **NOTES TO THE ACCOUNTS**

### **1.        Principal accounting policies**

The principal accounting policies adopted in the preparation of these accounts are set out below:

#### **(a)        *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.

#### **(b)        *Basis of consolidation***

The consolidated accounts include the accounts of the Company and its subsidiaries.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Any significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on disposal of a subsidiary represents the difference between the proceeds of the disposal and the Group’s share of its net assets together with any unamortised goodwill or negative goodwill and any related cumulative foreign currency translation adjustments.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

#### **(c)        *Subsidiaries***

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies, to appoint or remove the majority of the members of the board of directors, or to cast majority votes at the meetings of the board of directors.

In the Company’s balance sheet, investments in subsidiaries are stated at cost less accumulated impairment losses, if any. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(d) *Contractual joint ventures*

A contractual joint venture is an entity established between the Group and one or more other parties for a pre-determined period of time, with the rights and obligations of the joint venture partners being governed by a contract. If the Group is able to govern and control the financial and operating policies of the contractual joint venture so as to obtain benefits from its activities, such joint venture is considered as a subsidiary and is accounted for as such.

(e) *Fixed assets and depreciation*

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Major expenditures on modifications and betterments of fixed assets which will increase their future economic benefits are capitalised, while expenditures on repairs and maintenance are expensed when incurred. Fixed assets are depreciated on a straight-line basis at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives. The principal annual rate is 20%.

The depreciation methods and useful lives are reviewed periodically to ensure that the methods and rates of depreciation are consistent with the expected pattern of economic benefits from fixed assets.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce that asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net disposal proceeds and the then carrying amount of the relevant asset, and is recognised in the profit and loss account.

(f) *Website development costs*

Costs directly associated with the development of specific websites, which include external direct costs of materials and services consumed in developing or obtaining an internal-use website, are capitalised. The capitalisation of such costs ceases no later than the point at which the websites are substantially completed and ready for their intended purpose. Website development costs are amortised on a straight-line basis over a period of three years, which represents the expected useful life of the website. The Company's Directors and the Group's management review and evaluate the recoverability of the carrying value of website development costs periodically by reference to certain external factors, including, but not limited to, anticipated future revenue to be generated from the website and changes in technology.

Research and other development costs relating to website development and website maintenance costs are expensed as incurred.

(g) *Investments*

Investments, which are held for non-trading purpose, are stated at fair value at the balance sheet date. Changes in fair value of individual investments are credited or debited to the investment revaluation reserve until the investments are sold or otherwise disposed of or until the investments are determined to be impaired. Upon disposal, the cumulative gain or



loss, representing the difference between the net disposal proceeds and the carrying amount of the relevant investments, together with any surplus/deficit transferred from the investment revaluation reserve, is dealt with in the profit and loss account. When there is objective evidence that individual investments are impaired, the cumulative loss recorded in the investment revaluation reserve is taken to the profit and loss account.

**(h) *Inventories***

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the first-in, first-out basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

**(i) *Accounts receivable***

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

**(j) *Deferred taxation***

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

**(k) *Provisions***

Provisions are recognised when the Group has a present obligation, legal or constructive, as a result of past events and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed regularly and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset only when the reimbursement is virtually certain.

**(l) *Contingent liabilities and contingent assets***

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group. Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

**(m) Revenue recognition**

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group. Revenue is recognised on the following bases:

**(i) Sales revenue**

Revenue from sales of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

**(ii) Commission from procurement and online steel trading services**

Commission from procurement and online steel trading services is recognised when the services are rendered.

**(iii) Dividend income**

Dividend income is recognised when the right to receive payment is established.

**(iv) Interest income**

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Advance payments received from customers prior to delivery of goods and provision of services are recorded as receipts in advance.

**(n) Employee benefits**

**(i) Employee leave entitlements**

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

**(ii) Pension obligations**

The Group’s contributions to defined contribution retirement schemes are expensed as incurred.

(o) ***Borrowing costs***

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the profit and loss account in the period in which they are incurred.

(p) ***Operating leases***

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the relevant leases.

(q) ***Foreign currency translation***

Individual companies within the Group maintain their books and records in the primary currencies of their respective operations (“functional currencies”). In the accounts of the individual companies, transactions in other currencies during the year are translated into the functional currencies at the applicable rates of exchange prevailing at the time of the transactions; monetary assets and liabilities denominated in other currencies are translated into the respective functional currencies at the applicable rates of exchange in effect at the balance sheet date. Exchange gains or losses are dealt with in the profit and loss account of the individual companies.

The Group prepares consolidated accounts in Hong Kong dollars. For the purpose of consolidation, all assets and liabilities of subsidiaries with functional currencies other than Hong Kong dollars are translated into Hong Kong dollars at the applicable rates of exchange in effect at the balance sheet date; all income and expense items are translated at the applicable average exchange rates during the year. Exchange differences arising from such translation are dealt with as movements of cumulative foreign currency translation adjustments.

(r) ***Segment reporting***

In accordance with the Group’s internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of all of fixed assets, inventories, receivables and other operating assets. Segment liabilities consist primarily of all of the Group’s operating liabilities. Capital expenditure comprises additions to fixed assets, website development costs and short-term/long-term investments.

In respect of geographical segment reporting, turnover is based on the destination of delivery of goods or the location for the provision of services. Total assets and capital expenditure are classified where the assets are located.

(s) ***Cash and cash equivalents***

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

## APPENDIX I FINANCIAL INFORMATION ON THE iSTEELASIA GROUP

### 2. Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

- (a) The Group purchased inventories of approximately HK\$399,246,000 (2004: HK\$155,716,000) from Van Shung Chong Hong Limited (“VSCHL”), a related company, during the year ended 31st March 2005, and had an outstanding payable to VSCHL of approximately HK\$118,843,000 as at 31st March 2005 (2004: HK\$205,611,000) of which approximately HK\$115,453,000 (2004: HK\$198,417,000) was overdue. VSCHL has granted to the Group a normal credit period and has agreed not to demand repayment of overdue balances but charges interest on such balances based on commercial lending rates.

- (b) Details of significant transactions with related parties were:

Name of related party/Nature of transaction	2005 HK\$'000	2004 HK\$'000
Van Shung Chong Hong Limited (i)		
— Purchases made by the Group (Note 2(a))	399,246	155,716
— Commission from procurement services earned by the Group	2,221	1,894
— Interest charged to the Group (Note 2(a))	3,380	5,672
— Administrative fees charged to the Group	360	360
CFY Enterprises Limited (i)		
— Rental expense charged to the Group	<u>162</u>	<u>198</u>

*Note:*

- (i) Van Shung Chong Hong Limited and CFY Enterprises Limited are wholly owned by Van Shung Chong (B.V.I.) Limited, a substantial shareholder of the Company.
- (c) The amounts due to related companies arising from transactions described in Note 2(b) were included in accounts payable. Details of such balances are as follows:

Name of related company	2005 HK\$'000	2004 HK\$'000
Van Shung Chong Hong Limited (i)	<u>118,843</u>	<u>205,611</u>

*Note:*

- (i) The balance is unsecured, repayable within ordinary credit term and bore interest at commercial lending rates for overdue balances.

## APPENDIX I FINANCIAL INFORMATION ON THE iSTEELASIA GROUP

### 3. Turnover and revenues

Revenues recognised are as follows:

	2005 HK\$'000	2004 HK\$'000
Sales revenue	854,564	1,416,236
Commission from procurement and online steel trading services	5,121	13,207
Total turnover	859,685	1,429,443
Dividend income	659	421
Interest income	580	657
	1,239	1,078
Total revenues	860,924	1,430,521

### 4. Operating profit/(loss)

Operating profit/(loss) is determined after charging and crediting the following items:

	2005 HK\$'000	2004 HK\$'000
After charging—		
Staff costs (including directors' emoluments) (Note 6)	9,416	15,232
Operating lease rental in respect of premises paid to		
— a related company (Note 2(b))	162	198
— others	990	1,656
Loss on disposal of an listed investment (Note 13)	194	—
Loss on disposal of a subsidiary (Note 25(c))	263	—
Depreciation of fixed assets	1,016	1,069
Loss on disposal of fixed assets	87	118
Amortisation of website development costs	27	892
Write-off of and provision for bad and doubtful debts	1,761	439
Provision for inventories	1,448	420
Auditors' remuneration	500	438
After crediting—		
Gain on disposal of an unlisted investment (Note 13)	1,105	—
Gain on disposal of a subsidiary (Note 25(c))	200	—
Dividend income from an unlisted investment	659	421
Interest income from bank deposits	580	657
Net exchange gain	328	376

# APPENDIX I FINANCIAL INFORMATION ON THE iSTEELASIA GROUP

## 5. Finance costs

	2005 HK\$'000	2004 HK\$'000
Interest on bank loans wholly repayable within five years	1,676	2,250
Interest on amount due to a related company ( <i>Note 2(b)</i> )	3,380	5,672
	<u>5,056</u>	<u>7,922</u>

## 6. Staff costs (including directors' emoluments)

	2005 HK\$'000	2004 HK\$'000
Salaries and allowances	7,947	12,556
Bonus	1,238	2,376
Pension costs — defined contribution schemes ( <i>Note 27</i> )	231	300
	<u>9,416</u>	<u>15,232</u>

## 7. Directors' and senior executives' emoluments

### (a) Directors' emoluments

	2005 HK\$'000	2004 HK\$'000
Fees for independent non-executive directors	60	20
Fees for non-executive directors	11	15
Other emoluments for executive directors		
— Salaries and allowances	1,855	3,863
— Discretionary bonuses	—	1,440
— Retirement contributions	—	21
	<u>1,926</u>	<u>5,359</u>

During the year ended 31st March 2005, Mr. Andrew Cho Fai Yao waived his emolument of approximately HK\$636,000 (2004: HK\$636,000).

No incentive payment for joining the Group or compensation for loss of office was paid or payable to any director during the years ended 31st March 2005 and 2004.

APPENDIX I

FINANCIAL INFORMATION ON THE iSTEELASIA GROUP

Analysis of directors’ emoluments by number of directors and emolument ranges is as follows:

	2005	2004
Executive directors		
— Nil to HK\$1,000,000	2	2
— HK\$1,500,001 to HK\$2,000,000	1	1
— HK\$2,000,001 to HK\$2,500,000	—	1
Non-executive directors		
— Nil to HK\$1,000,000	2	4
Independent non-executive directors		
— Nil to HK\$1,000,000	3	3
	<u>8</u>	<u>11</u>

For the year ended 31st March 2005, the executive directors received individual emoluments of approximately HK\$1,855,000 (2004: HK\$1,806,000), Nil (2004: HK\$480,000), Nil (2004: HK\$546,000) and Nil (2004: HK\$2,492,000). The non-executive directors and independent non-executive directors received individual fees of approximately HK\$10,000 (2004: HK\$10,000), HK\$1,000 (2004: HK\$10,000), HK\$10,000 (2004: HK\$6,000), Nil (2004: HK\$4,000), Nil (2004: HK\$4,000), HK\$10,000 (2004: HK\$1,000) and HK\$40,000 (2004: Nil).

(b) *Five highest paid individuals*

The five individuals whose emoluments were the highest in the Group for the year include one director (2004: two directors) whose emoluments are reflected in the analysis presented in Note 7(a) above. The emoluments paid/payable to the remaining four (2004: three) individuals were as follows:

	2005 HK\$'000	2004 HK\$'000
Basic salaries and allowances	2,191	1,925
Bonuses	—	553
Retirement contributions	24	36
	<u>2,215</u>	<u>2,514</u>

The emoluments fell within the following band:

	2005	2004
Nil to HK\$1,000,000	<u>4</u>	<u>3</u>

8. Taxation

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.

## APPENDIX I FINANCIAL INFORMATION ON THE iSTEELASIA GROUP

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

The amount of taxation charged to the consolidated profit and loss account represents:

	2005 HK\$'000	2004 HK\$'000
The Company and subsidiaries —		
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	4,483	(4,483)
	<u>5,946</u>	<u>889</u>

The taxation on the Group's loss before taxation differs from the theoretical amount that would arise using the profits tax rate of Hong Kong, the home country of the Group, and the reconciliation was as follows:

	2005 HK\$'000	2004 HK\$'000
Loss before taxation	<u>(4,497)</u>	<u>(25,042)</u>
Calculated at Hong Kong profits tax rate of 17.5% (2004: 17.5%)	(787)	(4,382)
Effect of		
— different tax rates in other jurisdictions	479	146
— income not subject to taxation	(36)	(37)
— expenses not deductible for income tax purposes	338	3,591
— deferred tax assets not recognised	2,043	3,031
— reversal of previously recognised deferred tax assets	4,483	—
— reversal of previously unrecognised deferred tax assets	(49)	(570)
— Overprovisions in prior years	(525)	(890)
Taxation charge	<u>5,946</u>	<u>889</u>

### 9. Loss attributable to shareholders

The consolidated loss attributable to shareholders included a loss of approximately HK\$5,951,000 (2004: HK\$14,680,000) dealt with in the accounts of the Company.

### 10. 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.



11. Fixed assets

Movements were:

	Consolidated 2005			
	Leasehold improvements and furniture <i>HK\$'000</i>	Office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Cost</b>				
Beginning of year	651	2,415	2,460	5,526
Additions	94	97	—	191
Disposals	(164)	(224)	(145)	(533)
Disposal of subsidiaries <i>(Note 25(c))</i>	(38)	(75)	(536)	(649)
End of year	543	2,213	1,779	4,535
<b>Accumulated depreciation</b>				
Beginning of year	362	1,626	616	2,604
Charge for the year	143	471	402	1,016
Disposals	(97)	(178)	(42)	(317)
Disposal of subsidiaries <i>(Note 25(c))</i>	(14)	(34)	(131)	(179)
End of year	394	1,885	845	3,124
<b>Net book value</b>				
End of year	149	328	934	1,411
Beginning of year	289	789	1,844	2,922

## APPENDIX I FINANCIAL INFORMATION ON THE iSTEELASIA GROUP

### 12. Website development costs

Movements were:

	<b>Consolidated</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Cost</b>		
Beginning of year	33,364	33,347
Additions	5	17
End of year	33,369	33,364
<b>Accumulated amortisation and impairment</b>		
Beginning of year	33,321	32,429
Amortisation for the year	27	892
End of year	33,348	33,321
<b>Net book value</b>		
End of year	21	43
Beginning of year	43	918

### 13. Investments

	<b>Consolidated</b>		<b>Company</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Long-term investment</b>				
Listed shares in Hong Kong (i)				
At cost	—	22,550	—	22,550
Change in fair value	—	(20,414)	—	(20,414)
At quoted market value	—	2,136	—	2,136
Unlisted investments, at cost (ii)	780	—	—	—
	780	2,136	—	2,136
<b>Short-term investment</b>				
Unlisted investments (iii)				
At cost	—	25,925	—	—
Accumulated impairment loss	—	(2,525)	—	—
	—	23,400	—	—

Notes:

- (i)

Investment in listed shares represented investment in shares in AcrossAsia Limited (formerly known as AcrossAsia Multimedia Limited), a company incorporated in the Cayman Islands and whose shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. During the year ended 31st March 2005, the Group disposed of its entire investment in AcrossAsia Limited for a consideration of approximately HK\$1,942,000 and recognised a loss of approximately HK\$194,000.
- (ii)

Unlisted investment represents a 10% interest in Foshan Nanhai STS Metal Co., Ltd., a joint venture enterprise established in Mainland China. Foshan Nanhai STS Metal Co., Ltd., is principally engaged in manufacturing, processing and trading of cold rolled stainless steel. The Company’s directors and the Group’s management consider the cost approximates the fair value of this investment at 31st March 2005.
- (iii)

Investment in unlisted shares represented a 3.5% equity interest in Stemcor Holdings Limited (“Stemcor”), a company incorporated in the United Kingdom, which is principally engaged in the trading of steel products and the provision of specialist services to the steel and metals industries. During the year ended 31st March 2005, the Group exercised its put option to sell back its entire equity interest to Stemcor for approximately HK\$24,505,000 and recognised a gain of approximately HK\$1,105,000.

14. Investments in subsidiaries

	Company	
	2005	2004
	HK\$'000	HK\$'000
Unlisted shares, at cost	3,500	3,500
Due from subsidiaries	135,876	130,132
	139,376	133,632
Less: Accumulated impairment losses	(139,375)	(133,631)
	1	1

The amounts due from subsidiaries are unsecured, non-interest bearing and not repayable until the subsidiaries are financially capable to do so.

None of the subsidiaries had any loan capital in issue at any time during the year ended 31st March 2005.

APPENDIX I

FINANCIAL INFORMATION ON THE iSTEELASIA GROUP

Details of the subsidiaries as at 31st March 2005 were:

Name	Place of incorporation and operations	Issued and fully paid share capital	Percentage of equity attributable to the Group (i)	Principal activities
Chongqing iSteelAsia Trading Company Limited (ii)	Mainland China	US\$60,000	100%	Trading of steel
Greater China Metal Limited	British Virgin Islands	US\$1	100%	Investment holding
i-AsiaB2B Group Limited (i)	British Virgin Islands	US\$1	100%	Investment holding
ISA (China) Investment Limited	British Virgin Islands	US\$1	100%	Investment holding
ISA Group Holdings Limited	British Virgin Islands	US\$10,000	100%	Investment holding
iSteel Holdings (B.V.I.) Limited	British Virgin Islands	US\$1	100%	Investment holding
iSteel (MT) Holdings Limited	British Virgin Islands	US\$1	100%	Investment holding
iSteelAsia (Hong Kong) Limited	Hong Kong	HK\$2	100%	Operation of an e-commerce vertical portal business for online steel trading
iSteelAsia Limited	British Virgin Islands	US\$10	100%	Operation of an e-commerce vertical portal business for online steel trading
iSteelAsia Logistics Macao Commercial Offshore Company Limited	Macao	MOP100,000	100%	Trading of steel
ISA (South China) Company Limited (ii)	Mainland China	US\$200,000	100%	Trading of steel
iSteelAsia (Stemcor) Holdings Limited	British Virgin Islands	US\$1	100%	Investment holding
MetalAsia Holdings Limited	British Virgin Islands	US\$2,000	100%	Investment holding

APPENDIX I

FINANCIAL INFORMATION ON THE iSTEELASIA GROUP

Name	Place of incorporation and operations	Issued and fully paid share capital	Percentage of equity attributable to the Group (i)	Principal activities
Metal Logistics Company Limited	Hong Kong	HK\$4	100%	Trading of steel and provision of procurement services
Shanghai iSteelAsia International Limited (ii)	Mainland China	US\$200,000	100%	Trading of steel
Shenzhen iSteelAsia Trading Company Limited (ii)	Mainland China	HK\$2,000,000	100%	Trading of steel
Tianjin iSteelAsia International Limited (ii)	Mainland China	US\$200,000	100%	Trading of steel
Ya Gang Wang Co. Limited	British Virgin Islands	US\$1	100%	Investment holding
Yu Tai Steel (Shanghai) Co. Ltd. (ii)	Mainland China	US\$200,000	100%	Trading of steel

Notes:

- (i)

The shares of i-AsiaB2B Group Limited are held directly by the Company. The shares of the other subsidiaries are held indirectly.
- (ii)

These are wholly foreign owned enterprises established in Mainland China to operate for periods ranging from 10 to 50 years up to 2011 to 2052.

15.

Inventories

Inventories consisted of rolled flat steel products for trading purposes. As at 31st March 2005, inventories of approximately HK\$22,499,000 (2004: HK\$7,329,000) were stated at net realisable value.

Certain inventories were held under trust receipts bank loans (*Note 30*).

## APPENDIX I FINANCIAL INFORMATION ON THE iSTEELASIA GROUP

### 16. Accounts and bills receivable

The Group generally requires sales to be settled by cash upon delivery, with some limited cases granting a credit period of not more than 30 to 90 days. Ageing analysis of accounts and bills receivable was as follows:

	<b>Consolidated</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 90 days	3,959	29,869
91 to 180 days	3	1,376
181 to 270 days	15	497
271 to 365 days	—	—
Over 365 days	478	2
	<u>4,455</u>	<u>31,744</u>
<i>Less: Provision for bad and doubtful receivables</i>	<u>(478)</u>	<u>(551)</u>
	<u><u>3,977</u></u>	<u><u>31,193</u></u>

### 17. Cash and bank deposits

As at 31st March 2005, bank deposits of the Group and the Company of approximately HK\$16,080,000 (2004: HK\$34,439,000) and HK\$13,049,000 (2004: HK\$13,645,000), respectively, were pledged as collateral for the Group's banking facilities respectively (*Note 30*).

As at 31st March 2005, cash and bank deposits of the Group of approximately HK\$11,701,000 (2004: HK\$42,448,000) were denominated in Chinese Renminbi, which is not a freely convertible currency in the international market and its exchange rate is determined by the People's Bank of China.

### 18. Short-term bank borrowings

	<b>Consolidated</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trust receipts bank loans	2,625	26,856
Short-term bank loans	<u>21,735</u>	<u>24,570</u>
	<u><u>24,360</u></u>	<u><u>51,426</u></u>

Details of the Group's banking facilities are set out in Note 30.

All of the short-term bank loans were denominated in Chinese Renminbi.

19. Accounts and bills payable

Ageing analysis of accounts and bills payable was as follows:

	Consolidated	
	2005	2004
	HK\$'000	HK\$'000
0 to 90 days	18,272	86,032
91 to 180 days	93,467	36,927
181 to 270 days	8,079	56,354
271 to 365 days	—	61,534
1 to 2 years	1,200	43,598
	<u>121,018</u>	<u>284,445</u>

20. Deferred taxation

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2004: 17.5%).

The movement on the deferred tax assets, arising primarily from cumulative tax losses, is as follows:

	Consolidated	
	2005	2004
	HK\$'000	HK\$'000
Beginning of year	4,483	—
Deferred taxation (charged)/credited to profit and loss account	<u>(4,483)</u>	<u>4,483</u>
End of year	<u>—</u>	<u>4,483</u>

As at 31st March 2005, the Group had an unprovided deferred tax assets of approximately HK\$22,734,000 (2004: HK\$15,679,000), primarily representing the tax effect of cumulative tax losses (subject to agreement by relevant tax authorities) which can be carried forward indefinitely.

## APPENDIX I FINANCIAL INFORMATION ON THE iSTEELASIA GROUP

### 21. Share capital

Movements were:

	2005		2004	
	Number of shares '000	Nominal value HK\$'000	Number of shares '000	Nominal value HK\$'000
Authorised (Ordinary shares of HK\$0.10 each)	<u>4,000,000</u>	<u>400,000</u>	<u>4,000,000</u>	<u>400,000</u>
Issued and fully paid (Ordinary shares of HK\$0.10 each):				
Beginning of year	1,596,384	159,638	1,564,503	156,450
Issue of shares upon exercise of warrants ( <i>Note 22</i> )	206	21	681	68
Issue of shares for settlement of payables	<u>—</u>	<u>—</u>	<u>31,200</u>	<u>3,120</u>
End of year	<u>1,596,590</u>	<u>159,659</u>	<u>1,596,384</u>	<u>159,638</u>

### 22. Warrants

Movements were:

Date of issue	Exercise period	Subscription price per share HK\$	Number of warrants		
			Beginning of year '000	Exercised '000	End of year '000
23rd May 2002	18th June 2002 to 17th June 2005	0.10	<u>312,216</u>	<u>(206)</u>	<u>312,010</u>

On 23rd May 2002, the Company issued approximately 312,900,000 warrants to its shareholders on the basis of one warrant for every five ordinary shares of the Company at no charge. The warrants entitle the holders to subscribe in cash for ordinary shares of HK\$0.10 each in the Company at a subscription price of HK\$0.10 each (subject to adjustment) and are exercisable between 18th June 2002 to 17th June 2005. During the year ended 31st March 2005, 206,000 warrants (2004: 681,000 warrants) were exercised to subscribe for 206,000 shares (2004: 681,000 shares) of the Company at a consideration of approximately HK\$21,000 (2004: HK\$68,000).

### 23. Share options

The Company has a share option scheme ("the New Scheme") under which it may grant options to any person being an employee, agent, consultant or representative (including executive directors and non-executive directors) of the Group to subscribe for shares in the Company, subject to a maximum of 30% of the nominal value of the issued share capital of the Company from time to time, excluding for this purpose shares issued on the exercise of options. The exercise price will be determined by the Company's Board of Directors and shall be the highest of (i) the closing price of the Company's shares quoted on The Stock Exchange of Hong Kong Limited on the date of grant of the options; (ii) the average closing prices of the Company's shares quoted on The Stock Exchange



APPENDIX I

FINANCIAL INFORMATION ON THE iSTEELASIA GROUP

of Hong Kong Limited on the five trading days immediately preceding the date of grant of the options; and (iii) the nominal value of the Company’s shares of HK\$0.10 each. The New Scheme was adopted to replace an old scheme, with all options granted under the old scheme continue to be exercisable in accordance with the old terms.

Movements of share options were:

Date of grant	Exercise period	Subscription price per share <i>HK\$</i>	Number of share options		
			Beginning of year '000	Lapsed '000	End of year '000
3rd July 2000	1st October 2002 to 12th April 2010	0.360	19,850	(7,500)	12,350
7th November 2000	8th November 2002 to 12th April 2010	0.485	55,400	(13,000)	42,400
			<u>75,250</u>	<u>(20,500)</u>	<u>54,750</u>

24. Reserves

	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Investment revaluation reserve <i>HK\$'000</i>	Consolidated Cumulative foreign currency translation adjustments <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1st April 2003	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
Translation adjustments	<u>—</u>	<u>—</u>	<u>—</u>	<u>(48)</u>	<u>—</u>	<u>(48)</u>
As at 31st March 2004	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)
Translation adjustments	<u>—</u>	<u>—</u>	<u>—</u>	<u>(86)</u>	<u>—</u>	<u>(86)</u>
As at 31st March 2005	<u>11,099</u>	<u>2,700</u>	<u>—</u>	<u>19</u>	<u>(171,340)</u>	<u>(157,522)</u>

APPENDIX I

FINANCIAL INFORMATION ON THE iSTEELASIA GROUP

	Company			
	Share	Investment	Accumulated	Total
	premium	revaluation	losses	
	HK\$'000	reserve	HK\$'000	HK\$'000
As at 1st April 2003	11,099	(21,865)	(141,013)	(151,779)
Loss attributable to shareholders	—	—	(14,680)	(14,680)
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
As at 31st March 2004	11,099	—	(155,693)	(144,594)
Loss attributable to shareholders	—	—	(5,951)	(5,951)
Change in fair value of a long-term investment	—	548	—	548
Realised upon disposal of a long-term investment	—	(548)	—	(548)
As at 31st March 2005	11,099	—	(161,644)	(150,545)

# APPENDIX I FINANCIAL INFORMATION ON THE iSTEELASIA GROUP

## 25. Notes to the consolidated cash flow statement

- (a) Reconciliation of loss before taxation to net cash (outflow)/inflow generated from operations was as follows:

	<i>Note</i>	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Loss before taxation		(4,497)	(25,042)
Interest income		(580)	(657)
Interest expense		5,056	7,922
Dividend income		(659)	(421)
Depreciation of fixed assets		1,016	1,069
Loss on disposal of fixed assets		87	118
Amortisation of website development costs		27	892
Loss on disposal of subsidiaries, net	25(c)	63	—
Gain on disposal of investments, net		(911)	—
Impairment loss of an investment		—	20,414
Operating (loss)/profit before working capital changes		(398)	4,295
Decrease in inventories		35,850	24,147
Decrease in prepayments, deposits and other receivables		5,877	6,624
Decrease/(increase) in deposits for purchase of inventories		5,749	(40,089)
Decrease in accounts and bills receivable		23,914	6,232
(Decrease)/increase in accounts and bills payable		(148,697)	52,442
Increase in other payables		10,343	19
Increase in accruals		4,018	210
Increase in receipts in advance		11,182	1,674
Net cash (outflow)/inflow generated from operations		<u>(52,162)</u>	<u>55,554</u>

- (b) Analysis of changes in financing was as follows:

	<b>Share capital and share premium</b> <i>HK\$'000</i>	<b>Short-term bank borrowings</b> <i>HK\$'000</i>
As at 1st April 2003	167,549	57,134
Issue of shares upon exercise of warrants ( <i>Note 21</i> )	68	—
Issue of shares for settlement of payables ( <i>Note 21</i> )	3,120	—
New short-term bank loans	—	68,480
Repayment of short-term bank loans	—	(62,857)
Net decrease in trust receipts bank loans	—	(11,331)
As at 31st March 2004	170,737	51,426
Issue of shares upon exercise of warrants ( <i>Note 21</i> )	21	—
New short-term bank loans	—	6,615
Repayment of short-term bank loans	—	(9,450)
Net decrease in trust receipts bank loans	—	(24,231)
<b>As at 31st March 2005</b>	<u>170,758</u>	<u>24,360</u>

## APPENDIX I FINANCIAL INFORMATION ON THE iSTEELASIA GROUP

(c) Disposal of subsidiaries:

Details of disposal of subsidiaries were as follows:

	<i>Note</i>	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Net assets disposed of			
Fixed assets		470	—
Inventories		296	—
Deposits for purchase of inventories		56,185	—
Prepayments, deposits and other receivables		501	—
Accounts and bills receivable		3,302	—
Cash and other bank deposits		2,890	—
Accounts and bills payable		(14,730)	—
Other payables		(9,053)	—
Accruals		(466)	—
Receipts in advance		(35,991)	—
Taxation payable		(311)	—
Net assets		3,093	—
Total consideration		3,030	—
Loss on disposal, net	25(a)	63	—
Satisfied by:			
Other receivables (i)		1,536	—
Cash		1,494	—
		<u>3,030</u>	<u>—</u>

*Note:*

- (i) The outstanding purchase consideration was included as other receivables as at 31st March 2005, and was settled subsequently.

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Analysis of net cash inflow in respect of disposal of subsidiaries		
Cash consideration received	1,494	—
Less: Cash and cash equivalents disposed of	<u>(2,890)</u>	<u>—</u>
Proceeds from disposal of subsidiaries, net of cash disposed of	<u>(1,396)</u>	<u>—</u>

For the year ended 31 March 2005, the disposed subsidiaries contributed approximately HK\$192,336,000 (2004: HK\$382,277,000) of turnover and approximately HK\$5,176,000 (2004: HK\$5,658,000) of loss attributable to shareholders of the Group.

(d) Cash and cash equivalents:

Cash and cash equivalents represent cash and other bank deposits of approximately HK\$13,263,000 as at 31st March 2005 (2004: HK\$55,433,000).

**26. Segment information**

*(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 goods. 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 HK\$'000	Procurement services HK\$'000	Investment holding HK\$'000	Total HK\$'000
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 revenue	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>

## APPENDIX I FINANCIAL INFORMATION ON THE iSTEELASIA GROUP

	2004			
	Steel trading	Procurement services	Investment holding	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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 revenue	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>

APPENDIX I

FINANCIAL INFORMATION ON THE iSTEELASIA GROUP

(b) Secondary segment

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

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

**27. Pension schemes**

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (“the MPF Scheme”), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Group and its employees make monthly contributions to the scheme generally at 5% of the employees’ earnings as defined under the Mandatory Provident Fund legislation. The monthly contributions of each of the employer and employees are subject to a cap of HK\$1,000 and thereafter contributions are voluntary.

As stipulated by rules and regulations in Mainland China, the Group contributes to state-sponsored retirement plans for its employees in Mainland China. The employees contribute approximately 6% to 20% of their basic salaries, while the Group contributes approximately 14% to 22.5% of such salaries and has no further obligations for the actual payment of pensions or post-retirement benefits beyond these contributions. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees.

During the year ended 31st March 2005, the aggregate amount of the Group’s contributions to the aforementioned schemes was approximately HK\$231,000 (2004: HK\$300,000).

**28. Operating lease commitments**

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

	<b>Consolidated</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Amounts payable		
— Not later than one year	705	683
— Later than one year and not later than five years	322	572
	1,027	1,255
	1,027	1,255

**29. Contingent liabilities**

As at 31st March 2005, the Company had provided guarantees of approximately HK\$88,725,000 (2004: HK\$146,545,000) to banks in respect of the banking facilities granted to its subsidiaries (*Note 30*). The Company’s Directors and the Group’s management anticipate that no material liabilities will arise from such guarantees which arose in the ordinary course of business.

**30. Banking facilities**

As at 31st March 2005, the Group had aggregate banking facilities of approximately HK\$88,125,000 (2004: HK\$159,155,000) 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:

- (i) pledge of the Group’s and the Company’s bank deposits of approximately HK\$16,080,000 (2004: HK\$34,439,000) and HK\$13,049,000 (2004: HK\$13,645,000), respectively (*Note 17*);
- (ii) inventories held under trust receipts bank loan arrangements (*Note 15*); and
- (iii) guarantees provided by the Company (*Note 29*).



**31.      Subsequent events**

Subsequent to year end, on 19th May 2005, the Company's Board announced that it would put forward to the Company's shareholders to approve, subject to conditions, the following items at an upcoming 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 existing 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. Moses Kwok Tai Tsang) 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. Moses Kwok Tai Tsang) 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, or have the right to request the Company to redeem the whole or in part of the outstanding bonds from December 2007 to the date which is five years after the date of issue.
- (v)     The Company's name will be changed to North Asia Strategic Holdings Limited.

**32.      Approval of accounts**

The accounts were approved by the board of directors on 9th June 2005.

4. (I) STATEMENT OF UNAUDITED PRO FORMA CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

For illustrative purpose only, the following statement of unaudited pro forma consolidated net tangible of assets of the Group has been prepared to illustrate the effect of the Proposals announced on 19 May 2005 on the consolidated net tangible assets of the Group as at 31 March 2005, assuming the Proposals had taken place on 31 March 2005. As this statement of unaudited pro forma consolidated net tangible assets is prepared for illustrative purpose only, after taking into account of the foregoing and because of its nature, it may not purport to represent what the consolidated net tangible assets of the Group are upon completion of the Proposals.

The following statement of unaudited pro forma consolidated net tangible assets of the Group is prepared based on the audited consolidated balance sheet of the Group as at 31 March 2005 extracted from the Company’s annual report for the year ended 31 March 2005 and adjusted for the financial effect of the Proposals.

	Audited consolidated net assets of the Group as at 31 March 2005 HK\$'000 (a)	Audited consolidated net tangible assets of the Group as at 31 March 2005 HK\$'000 (a)	Estimated net proceeds HK\$'000	Unaudited pro forma consolidated net tangible assets of the Group per New Share HK\$'000	Unaudited pro forma consolidated net tangible assets of the Group per New Share HK cents
Before Completion of the Proposals	<u>2,137</u>	<u>2,116</u>			13.25(g)
Based on the Proposals — before conversion of Convertible Bonds	<u>2,137</u>	<u>2,116</u>	11,300 (b) (1,100) (c)	<u>12,316</u>	12.86 (d)
Based on the Proposals — after conversion of Convertible Bonds	<u>2,137</u>	<u>2,116</u>	11,300 (b) (1,100) (c) 20,000 (e)	<u>32,316</u>	14.46 (f)

- (a) The consolidated net assets of the Group is extracted from the audited accounts of the Group for the year ended 31 March 2005. As at 31 March 2005, the consolidated net assets of the Group included website development costs of approximately HK\$21,000 which is considered as intangible asset and was adjusted to arrive at the consolidated net tangible assets of the Group as at 31 March 2005.
- (b) This reflects the net proceeds of approximately HK\$11.3 million from the Subscription and the Open Offer pursuant to the Proposals amounting to approximately HK\$10 million and approximately HK\$2.5 million, respectively, after deducting estimated expenses of approximately HK\$1.2 million attributable to the Subscription and the Open Offer.
- (c) In addition to the aforementioned estimated expenses of approximately HK\$1.2 million, this reflects the remaining balance of the estimated expenses of the Proposals amounting to approximately HK\$1.1 million.
- (d) The calculation is based on the assumption that 95,794,716 New Shares will be in issue upon completion of the Proposals but before exercise of the conversion rights under the Convertible Bonds.
- (e) This reflects the proceeds of HK\$20 million from the issue of the Convertible Bonds pursuant to the Proposals.
- (f) The calculation is based on the assumption that 223,508,636 New Shares will be in issue after completion of the Proposals and the exercise of the conversion rights of the Convertible Bonds in full at the initial conversion price of HK\$0.1566 per New Share.
- (g) The calculation is based on 15,968,878 New Shares in issue before completion of the Proposals but after adjusting the effect of the Share Consolidation.

**(II) REPORT ON THE STATEMENT OF UNAUDITED PRO FORMA  
CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP**

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羅兵咸永道會計師事務所

PricewaterhouseCoopers  
22/F, Prince's Building  
Central, Hong Kong

20 June 2005

The Directors  
iSteelAsia Holdings Limited

Dear Sirs,

We report on the statement of unaudited pro forma consolidated net tangible assets of iSteelAsia Holdings Limited (“the Company”) and its subsidiaries (hereinafter collectively referred to as “the Group”) set out on pages 101 and 102 under the heading of “Statement of unaudited pro forma consolidated net tangible assets of the Group” in Appendix I of the Company’s circular dated 20 June 2005 in connection with the proposed Capital Reorganisation, the Open Offer and the Subscription (“the Proposals”) of the Company. The statement of unaudited pro forma consolidated net tangible assets has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Proposals might have affected the consolidated net tangible assets of the Group as at 31 March 2005.

**RESPONSIBILITIES**

It is the responsibility solely of the directors of the Company to prepare the statement of unaudited pro forma consolidated net tangible assets in accordance with paragraph 13 of Appendix 1B and paragraph 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (“the GEM Listing Rules”).

It is our responsibility to form an opinion, as required by paragraph 7.31 of the GEM Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the statement of unaudited pro forma consolidated net tangible assets beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

**BASIS OF OPINION**

We conducted our work with reference to the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 “Reporting on pro forma financial information pursuant to the Listing Rules” issued by the Auditing Practices Board in the United Kingdom, where applicable. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustment and discussing the statement of unaudited pro forma consolidated net tangible assets with the directors of the Company.

Our work does not constitute an audit or review in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, and accordingly, we do not express any such assurance on the statement of unaudited pro forma consolidated net tangible assets.

The statement of unaudited pro forma consolidated net tangible assets has been prepared on the bases set out on pages 101 and 102 for illustrative purpose only and, because of its nature, it may not be indicative of the financial position of the Group at any future date.

**OPINION**

In our opinion:

- (a) the statement of unaudited pro forma consolidated net tangible assets has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustment is appropriate for the purposes of the statement of unaudited pro forma consolidated net tangible assets as disclosed pursuant to paragraph 7.31 of the GEM Listing Rules.

Yours faithfully,  
**PricewaterhouseCoopers**  
*Certified Public Accountants*  
Hong Kong

**5.      STATEMENT OF INDEBTEDNESS****(a)      Borrowings**

As at the close of business on 31 May 2005, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the iSteelAsia Group had outstanding borrowings of approximately HK\$25,652,000, comprising the following:

- (i)      Short-term bank borrowings of approximately HK\$21,735,000. These loans were denominated in Chinese Renminbi and bore interest at rates ranging from approximately 5.5% to 5.6% per annum.
- (ii)     Trust receipts bank loans of approximately HK\$3,917,000. These loans were denominated in US Dollars.

**(b)      Collaterals**

The borrowings were secured by:

- (i)      pledge of the Group's bank deposits of approximately HK\$16,125,000;
- (ii)     inventories held under trust receipts bank loan arrangements; and
- (iii)    guarantees provided by the Company.

**(c)      Contingent liabilities**

As at 31 May 2005, the Group had no material contingent liabilities.

**(d)      Disclaimer**

Save as disclosed in the preceding paragraph and apart from intra-group liabilities, at the close of business on 31 May 2005, the Group did not have any loan capital issued and outstanding or agreed to be issued, debt securities or other similar indebtedness, liabilities under acceptance (other than normal trade bills and payables) or acceptance credits, debentures, mortgages, charges, hire purchase or other finance lease commitments, guarantees or other material contingent liabilities.

The Directors have confirmed that there has been no material change in the indebtedness and contingent liabilities of the Group since 31 May 2005.

**6.     WORKING CAPITAL**

The Directors are of the opinion that after taking into account the existing banking facilities available, the existing cash and bank balances, our internally generated funds and the estimated net proceeds from the Proposals, the Group has sufficient working capital for the period ending 12 months from the date of this circular.

**7.     MATERIAL CHANGE**

Save for the Capital Reorganisation, the Open Offer, the Subscription and the application for the Whitewash Waiver, the Directors are not aware of any material change in the financial or trading position or prospects of the Group since 31 March 2005, the date to which the latest audited consolidated financial statements of the Group were made up.

**1. RESPONSIBILITY STATEMENTS**

This circular includes particulars given in compliance with the Takeovers Code and the GEM Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually, and jointly and severally, accept full responsibility for the accuracy of the information (other than information relating to the Ajia Group) contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular (other than those expressed by the Ajia Group) have been arrived at after due and careful consideration and there are no other facts (other than those relating to the Ajia Group) not contained in this circular, the omission of which would make any statement herein misleading.

This circular also includes particulars given in compliance with the Takeovers Code and the GEM Listing Rules for the purpose of giving information with regard to the Ajia Group. The directors of NASAC and Mr. Tsang jointly and severally accept full responsibility for the accuracy of the information relating to the Ajia Group contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular relating to the Ajia Group have been arrived at after due and careful consideration and there are no other facts relating to the Ajia Group not contained in this circular, the omission of which would make any statement herein misleading.

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

As at the Latest Practicable Date, 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 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 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		Number of Options	Aggregate interest
Mr. Andrew Yao	— Corporate interest held by TN (Note 1)	deemed interest (indirectly)	163,367,600	(10.23%)	—	163,367,600
	— Corporate interest held by Huge Top (Note 2)	more than one-third (indirectly)	159,811,344	(10.01%)	—	159,811,344
	— Corporate interest held by VSC BVI (Note 3a)	through Huge Top (indirectly)	301,026,000	(18.85%)	—	301,026,000
	— Corporate interest held by VSC BVI (Note 3b)	through Huge Top (indirectly)	1,596,887,805	(100%)	—	1,596,887,805
	— Corporate interest held by Right Action (Note 4)	100% (directly)	102,400,000	(6.41%)	—	102,400,000
	— Personal interest (Note 5)	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 5)	100% (directly)	<u>—</u>	<u>—</u>	<u>11,750,000</u>	<u>11,750,000</u>

Notes:

1. As at the Latest Practicable Date, TN owns 163,367,600 Shares. VSC BVI owns 54% of the issued share capital of TN and Mr. Andrew Yao owns 10% of the issued share capital of TN. Mr. Andrew 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 14 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.
2. As at the Latest Practicable Date, Huge Top owns 159,811,344 Shares. Mr. Andrew 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 Yao owns the entire issued share capital of Perfect Capital. Mr. Andrew 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.
- 3(a). As at the Latest Practicable Date, VSC BVI owns 301,026,000 Shares and Huge Top owns approximately 47.05% of the issued share capital of Van Shung Chong. VSC BVI is a wholly-owned subsidiary of Van Shung Chong. Mr. Andrew Yao is one of the two directors from time to time of VSC BVI. These interests of the aforesaid Director in the securities of the Company were corporate 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 is yet to take place, the number of such New Shares are adjusted to show the number of existing issued shares of the Company, namely 1,596,887,805 Shares. Through his interest in Huge Top as described in 3(a) above, Mr. 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.
4. As at the Latest Practicable Date, Right Action Offshore Inc. (“Right Action”) owns 102,400,000 Shares. Mr. Andrew 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.
5. Pursuant to the Old Scheme described in Appendix I, the Options granted to and held by the Directors up to the Latest Practicable Date were as follows:

Name	Date of grant	Exercise price per Share	Vesting period	Exercise period	Number of Options
Mr. Andrew Yao	7 November 2000	HK\$0.485	7 November 2000 to 7 November 2001	8 November 2001 to 12 April 2010	5,000,000
Mr. Desmond Hay Ching Fu	3 July 2000	HK\$0.360	3 July 2000 to 30 September 2001	1 October 2001 to 12 April 2010	250,000
	7 November 2000	HK\$0.485	7 November 2000 to 7 November 2001	8 November 2001 to 12 April 2010	11,500,000

Save as disclosed above, as at the Latest Practicable Date, 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 have 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 to be notified to the Company and the Stock Exchange as referred in Rules 5.46 to 5.67 of the GEM Listing Rules.

Save as disclosed above, no other Director held any Shares as at the Latest Practicable Date and none of them has dealt in any securities in the Company for value during the period commencing six months prior to the date of the Announcement and up to the Latest Practicable Date.

3.

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

As at the Latest Practicable Date, 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
<i>Substantial Shareholders</i>				
VSC BVI	— directly	301,026,000	(18.85%)	
	— directly	1,596,887,805	(100%)	
	(deemed interest through VSC BVI acting as the Underwriter to the Open Offer)			
	— indirect deemed interest through TN	163,367,600	(10.23%)	
		2,061,281,405	(129.08%)	<i>1(a) &amp; 1(b)</i>

Name	Nature of interest	Number of Shares and approximate		Notes
		% of shareholding		
<i>Substantial Shareholders</i>				
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%)	<i>1(a) &amp; 1(b) &amp; 2(a) &amp; 2(b)</i>
		<u>2,061,281,405</u>	<u>(129.08%)</u>	
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>	<i>1(a) &amp; 1(b), 2(a) &amp; 2(b) &amp; 3(a) &amp; 3 (b)</i>

APPENDIX II

GENERAL INFORMATION

Name	Nature of interest	Number of Shares and approximate % of shareholding		Notes
<i>Substantial Shareholders</i>				
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)
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

Name	Nature of interest	Number of Shares and approximate % of shareholding		Notes
Mr. Tsang	— directly	5,908,045,900	(369.97%)	6
	— indirect deemed interest through Oboe Development Trading Limited	50,940,000	(3.19%)	
		5,958,985,900	(373.16%)	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

Right Action	— directly	102,400,000	(6.41%)	
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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 the Latest Practicable Date. VSC BVI directly owns 301,026,000 Shares as at the Latest Practicable Date. 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 is yet to take place, the number of such New Shares are adjusted to show the number of existing 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 is yet to take place, the number of such New Shares are adjusted to show the number of existing 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 the Latest Practicable Date. Huge Top is beneficially interested in approximately 47.05% of the issued share capital of Van Shung Chong as at the Latest Practicable Date 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 the Latest Practicable Date. 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 is yet to take place, the number of such New Shares are adjusted to show the number of existing 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 the Latest Practicable Date, 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 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 is yet to take place, the number of such New Shares are adjusted to show the number of existing 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 14 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 the Latest Practicable Date, Mr. Tsang 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 is directly interested in a total of 59,080,459 New Shares. As the Capital Reorganisation is yet to take place, the number of shares in the Company in which Mr. Tsang is directly interested is adjusted to show the number of existing issued shares of the Company, namely 5,908,045,900 Shares.
7. As at the Latest Practicable Date, Mr. Tsang is directly interested in 5,908,045,900 Shares. In addition, 50,940,000 Shares is directly owned by Oboe Development Trading Limited which is wholly owned by Mr. Tsang. Mr. Tsang is therefore deemed to be interested in an aggregate of 5,958,985,900 Shares.
8. As at the Latest Practicable Date, 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 is yet to take place, the number of shares in the Company in which NASAC is directly interested is adjusted to show the number of existing issued shares of the Company, namely 13,249,042,100 Shares.
9. As at the Latest Practicable Date, 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 the Latest Practicable Date, 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 the Latest Practicable Date, 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.

### **Competing interests**

Mr. David Michael Faktor (“Mr. Faktor”), a non-executive Director, is the director of Stemcor Holdings Limited whose business is principally engaged in international steel trading. Mr. Andrew Yao is the chairman of the iSteelAsia Board, 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 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.

## **4. DIRECTORS’ INTERESTS IN ASSETS/CONTRACTS AND OTHER INTERESTS**

Save for the Deed of Indemnity of which Mr. Andrew Yao is an obligor, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date which was significant in relation to the business of the Group.

None of the Directors has any direct or indirect interests in any assets which have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 March 2005, being the date to which the latest published audited consolidated accounts of the Group were made up.

**5. PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS**

Pursuant to bye-law 66 of the bye-laws of the Company, at any general meeting, resolution put to the vote of a meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

- (a) by the chairman of such meeting; or
- (b) by at least three members present in person (or in the case of a member being a corporation by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or
- (c) by a member or members present in person (or in the case of a member being a corporation by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all members having the right to vote at the meeting; or
- (d) by a member or members present in person (or in the case of a member being a corporation by its duly authorised representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

A demand by a person as proxy for a member or in the case of a member being a corporation by its duly authorised representative shall be deemed to be the same as a demand by a member.

**6. MATERIAL CONTRACTS**

The following contracts, not being contracts in the ordinary course of business, were entered into by the Company and/or its subsidiaries within the two years preceding the date of the Initial Announcement and up to the Latest Practicable Date and are or may be material:

- a. a subscription agreement dated 20 October 2003 entered into by iSteelAsia, AFAC Equity, L.P. and McKinsey & Company Inc. Hong Kong;
- b. the Subscription Agreement;
- c. the Deed of Indemnity; and
- d. the Underwriting Agreement.

7. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

8. EXPERTS AND CONSENTS

The following are the qualification of the experts who have been named in this circular or have given opinion or advice which are contained in this circular:

Name	Qualification
Celestial Capital Limited ("CASH")	a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities for the purposes of the SFO
Somerley Limited ("Somerley")	a corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities for the purposes of the SFO
Access Capital Limited	a corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities for the purposes of the SFO
PricewaterhouseCoopers	Certified Public Accountants

CASH, Somerley, Access Capital and PricewaterhouseCoopers have given and have not withdrawn their written consents to the issue of this circular with the inclusion herein of their letters or references to their names in the form and context in which they respectively appear.

None of CASH, Somerley, Access Capital and PricewaterhouseCoopers has any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

None of CASH, Somerley, Access Capital and PricewaterhouseCoopers has any direct or indirect interests in any assets which have been, since 31 March 2005 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group.

## **9. SERVICE CONTRACTS**

None of the Directors has a service contract which is not terminable by the employing company within one year without payment of compensation other than statutory compensation.

There are no service contracts entered into or amended between the Group and the Directors within the 6 months prior to the date of the Initial Announcement.

## **10. SHAREHOLDINGS AND DEALINGS**

- (a) Save for the 5% interest in TN (which in turn holds 163,367,600 Shares, representing approximately 10.2% of the existing issued Shares), the 50,940,000 Shares (representing 3.2% of the existing issued Shares) held by Mr. Tsang as at the Latest Practicable Date as disclosed in the section headed “Information on the Ajia Group” in the Letter from the Board of this circular, none of the Ajia Parties or any of their concert parties (including any directors of NASAC or any of its concert parties which are entities) owned or controlled any Shares, convertible securities, warrants, options or derivatives of the Company as at the Latest Practicable Date and save for the disposal of an aggregate of 260,000 Shares beneficially owned by Mr. Tsang on two occasions as detailed below, none of them had dealt for value in any such securities during the period starting six months prior to 4 March 2005 (being the date of the Initial Announcement) and ending on the Latest Practicable Date.

Mr. Tsang contracted to sell 250,000 Shares at the price of HK\$0.03208 per Share on 11 November 2004 and 10,000 Shares at the price of HK\$0.03481 per Share on 12 November 2004 respectively. The respective settlement dates of such sales are 15 November 2004 and 16 November 2004.

- (b) No person with whom the Ajia Parties and any of their concert parties had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code owned or controlled any Shares, convertible securities, warrants, options or derivatives of the Company as at the Latest Practicable Date, and none of them had dealt for value in any such securities during the period starting six months prior to 4 March 2005 (being the date of the Initial Announcement) and ending on the Latest Practicable Date.

- (c) Neither CASH, Somerley, Access Capital and PricewaterhouseCoopers nor any other advisers to the Company as specified in class (2) of the definition of associate (excluding exempt principal traders) in the Takeovers Code, their respective ultimate holding companies, nor any of their respective subsidiaries or fellow subsidiaries owned or controlled any Shares, convertible securities, warrants, options or derivatives of the Company as at the Latest Practicable Date.
- (d) No subsidiary of the Company or a pension fund of the Company or of its subsidiaries owned or controlled any Shares, convertible securities, warrants, options or derivatives of the Company as at the Latest Practicable Date.
- (e) None of the Company or the Directors owned or controlled any shares, convertible securities, warrants, options or derivatives of NASAC, NASA and API as at the Latest Practicable Date and none of them had dealt for value in any such securities during the period starting six months prior to Initial Announcement and ending on the Latest Practicable Date.

## 11. MARKET PRICES

The table below shows the closing prices on GEM of the Shares (i) at the end of each of the six calendar months preceding the date of the Initial Announcement; (ii) on the last trading day immediately preceding the date of the Announcement being 19 May 2005; (iii) the end of each calendar month following the date of the Announcement and (iv) on the Latest Practicable Date:

### Shares

Date	Closing Price (HK\$)
30 September 2004	0.032
29 October 2004	0.038
30 November 2004	0.031
31 December 2004	0.034
31 January 2005	0.034
28 February 2005	0.028
31 March 2005	0.034
19 April 2005 (being the last trading date immediately preceding the date of the Announcement)	0.073
31 May 2005	0.024
Latest Practicable Date	0.022

The highest and lowest closing prices of the Shares as recorded on the Stock Exchange during the period commencing from the start of the six months preceding the date of the Initial Announcement were HK\$0.048 on 8 December 2004 and HK\$0.018 on 10 November 2004, respectively.

The highest and lowest closing prices of the Shares as recorded on the Stock Exchange during the period commencing from the start of the six months preceding the Latest Practicable Date were HK\$0.115 on 4 April 2005 and HK\$0.021 on 29 March 2005.

## **12. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours from 9:30 a.m. to 5:30 p.m. (except Saturdays and public holidays) at the principal office of iSteelAsia at Rooms 4902-8, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong up to and including 4 July 2005.

- iSteelAsia's memorandum of association and bye-laws;
- the memorandum and articles of association of NASAC;
- the material contracts referred to in the section headed "Material Contracts" in this appendix;
- the written consents referred to under the section headed "Experts and Consents" in this appendix;
- the annual reports of iSteelAsia for the three years ended 31 March 2005;
- the letter from the Independent Board Committee set out on page 43 of this circular; and
- the letter from Access Capital set out on pages 44 to 65 of this circular.

## **13. MISCELLANEOUS**

- The correspondence address of the iSteelAsia Directors is at Rooms 4902-8, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong;
- The correspondence address of iSteelAsia is at Rooms 4902-8, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong;
- The company secretary of iSteelAsia is Ms. Tse Sau Wai, *FCS, FCIS*;
- The qualified accountant of iSteelAsia is Mr. Ng Pan, *FCPA*;
- The compliance officer of iSteelAsia is Mr. Desmond Hay Ching Fu. Mr. Fu holds a bachelor degree in Civil Engineering with honor from the University of London and a master degree in E-commerce from the University of Hong Kong;

- iSteelAsia has established an 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 iSteelAsia's annual reports and quarterly reviews and providing advice and comments thereon to the iSteelAsia Board. The audit committee is also responsible for reviewing and supervising iSteelAsia's financial reporting and internal control procedures. The audit committee comprises three independent non-executive Directors, namely Mr. Philip King Huen Ma ("Mr. Ma"), Mr. Kennedy Ying Ho Wong ("Mr. Wong") and Mr. Kenny King Ching Tam ("Mr. Tam").

Mr. Ma is the group managing director of The Sincere Company Limited, a listed company on the Stock Exchange. He is also active in his community services and was the chairman of the Hong Kong Retail Management Association from 1996-2000. He holds a masters degree in business administration from McMaster University in Canada.

Mr. Wong is a solicitor and a China Appointed Attesting Officer. He is the managing partner of Philip K.H. Wong, Kennedy Y.H. Wong & Co., Solicitors & Notaries. He is a National Committee Member of the Chinese People Political Consultative Conference (years 2003 to 2008). Mr. Wong is also a director of a number of listed companies in Hong Kong.

Mr. Tam is a qualified accountant in Hong Kong and Canada. He is a practicing accountant in Hong Kong and is the owner of Kenny Tam & Co., Certified Public Accountants. He is also a registered Insolvency Practitioner of the Official Receiver's Office. He has substantial experience in the accounting and insolvency fields. He serves on a number of advisory committees in the accountancy and insolvency profession and has been active in community work in Hong Kong for many years. Mr. Tam is also an independent non-executive director of a number of listed companies in Hong Kong;

- iSteelAsia's registered office is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda while its head office and principal place of business in Hong Kong is at Rooms 4902-8, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong;
- iSteelAsia's Hong Kong branch share registrar and transfer office is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong;

- The correspondence address of the Ajia Parties is at 78th Floor, The Center, 99 Queen's Road Central, Hong Kong. The registered address of NASAC and NASA is at Scotia Centre, P.O. Box 268 GT, Grand Cayman, Cayman Islands. The registered address of API is at 4th Floor, Harbour Centre, Box 613, George Town, Grand Cayman, Cayman Islands;
- As at the Latest Practicable Date, there was no agreement, arrangement or understanding (including any compensation arrangement) existing (a) between the Ajia Parties or any of their concert parties and any of the iSteelAsia Directors, recent iSteelAsia Directors, Shareholders or recent Shareholders and (b) between any iSteelAsia Directors and any other person having any connection with or dependence upon the transactions contemplated under the Subscription Agreement and the Whitewash Waiver;
- As at the Latest Practicable Date, there was no agreement, arrangement or understanding (including any compensation arrangement) between the Ajia Parties or any of their concert parties and other persons in relation to the transfer of the New Shares and the Convertible Bonds to be issued to the Ajia Parties or any of their concert parties under the Subscription Agreement;
- As at the Latest Practicable Date, no person had any arrangement of the kind referred to in Note 8 to Rule 22 the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate in the Takeovers Code;
- As at the Latest Practicable Date, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Ajia Parties or any person acting in concert with the Ajia Parties;
- As at the Latest Practicable Date, no Independent Shareholders had irrevocably committed themselves to vote for or against the transactions contemplated under the Proposals; and
- The English text of this circular shall prevail over the Chinese text.



*iSteelAsia*  
**iSteelAsia Holdings Limited**  
(亞鋼集團有限公司)\*  
(Incorporated in Bermuda with limited liability)  
(Stock Code: 8080)

**NOTICE IS HEREBY GIVEN** that a special general meeting of iSteelAsia Holdings Limited (the “Company”) will be held at Rooms 4902-8, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong on Thursday, 14 July 2005 at 3:00 p.m. (or immediate after the conclusion or adjournment of the annual general meeting of the Company) for the purpose of considering and, if thought fit, passing (with or without modifications) the following resolutions:

**1. SPECIAL RESOLUTION**

“**THAT**, subject to the passing of Ordinary Resolutions numbered 2, 3 and 4 set out in the notice convening this Meeting and the fulfilment of the other conditions in respect of the Capital Reorganisation (as defined below) as set out in the circular of the Company dated 20 June 2005 (the “Circular”), a copy of which is produced to the Meeting marked “A” and signed by the chairman of the Meeting for identification and with effect from the business day immediately following the date on which this resolution is passed (the “Effective Date”):

- (a) every one hundred (100) issued and unissued shares of HK\$0.10 each in the capital of the Company be consolidated into one (1) share of HK\$10.00 (the “Consolidated Share”) in the capital of the Company (the “Share Consolidation”) and any fractional entitlements to the then issued Consolidated Shares resulting from the Share Consolidation shall be aggregated and sold in the form of Consolidated Shares for the benefit of the Company in such manner and on such terms as the directors of the Company (the “Directors”) may think fit;
- (b) subject to and forthwith upon the Share Consolidation taking effect, the issued capital of the Company be reduced by cancelling paid up capital to the extent of HK\$9.99 on each issued Consolidated Share on the Effective Date such that the nominal value of all the issued Consolidated Shares will be reduced from HK\$10.00 to HK\$0.01 each (the “New Shares”) (the “Capital Reduction”);

\* For identification purpose only

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## NOTICE OF SGM

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- (c) subject to and forthwith upon the Capital Reduction taking effect, all of the authorised but unissued share capital of the Company (including the authorised but unissued share capital arising from the Capital Reduction) be cancelled (the “Diminution”) and, forthwith upon the Diminution taking place, the authorised share capital of the Company be increased back to its original amount of HK\$400,000,000 by the creation of the requisite number of New Shares of HK\$0.01 each (the “Share Restoration”);
- (d) the entire amount standing to the credit of the share premium account of the Company as at 31 March 2005 be cancelled (the “Share Premium Reduction”);
- (e) the credits arising from the Capital Reduction and the Share Premium Reduction be transferred to the contributed surplus account of the Company which will be utilised by the Directors in accordance with the bye-laws of the Company and all applicable laws, including towards application against the accumulated losses of the Company as at 31 March 2005 (the “Credit Application”); and
- (f) the Directors be and are hereby authorised to do all things and acts and sign all documents which they consider necessary, desirable, or expedient in connection with the implementation of the Share Consolidation, the Capital Reduction, the Diminution, the Share Restoration and the Share Premium Reduction (collectively, the “Capital Reorganisation”) and the Credit Application.”

## 2. ORDINARY RESOLUTION

“**THAT**, subject to the passing of Special Resolution numbered 1 set out in the notice convening this Meeting and Ordinary Resolutions numbered 3 and 4 and the fulfilment of the other conditions in the underwriting agreement dated 19 May 2005 entered into between the Company and Van Shung Chong (B.V.I.) Limited in relation to the underwriting of the Open Offer (as defined below) (the “Underwriting Agreement”), a copy of which is produced to the Meeting marked “B” and signed by the chairman of the Meeting for identification:

- (a) the offer (the “Open Offer”) of New Shares (the “Offer Shares”) to the shareholders of the Company whose names appear on the register of members of the Company at the close of business on a date to be fixed by the Directors on an assured basis of provisional allotments of one (1) Offer Share for every one (1) New Share then held at the subscription price of HK\$0.1566 per Offer Share according to the terms of the Open Offer as set out in the Circular be and is hereby approved, and the Directors be and are hereby authorised to allot and issue the Offer Shares upon acceptance by the shareholders of the Company pursuant to and in accordance with the Open Offer;

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## NOTICE OF SGM

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- (b) the Underwriting Agreement be and is hereby approved, confirmed and ratified and the Directors be and are hereby authorised to do all acts and things and execute such other documents which may be necessary, desirable or expedient in their opinion to carry into effect or to give effect to the terms of the Underwriting Agreement; and
- (c) the Directors be and are hereby authorised to do all acts and things and execute all documents which they consider necessary, desirable or expedient in connection with the implementation of the Open Offer.”

### 3. ORDINARY RESOLUTION

“**THAT**, subject to the passing of Special Resolution numbered 1 and Ordinary Resolutions numbered 2 and 4 set out in the notice convening this Meeting and the fulfilment of the other conditions in the subscription agreement (the “Subscription Agreement”) dated 19 May 2005 entered into between the Company, North Asia Strategic Acquisition Corp., Mr. Moses Kwok Tai Tsang (together the “Ajia Parties”) and Huge Top Industrial Ltd. in relation to the subscription by the Ajia Parties of an aggregate of 63,856,960 New Shares (the “Subscription Shares”) and convertible bonds (the “Convertible Bonds”) for an aggregate principal amount of HK\$20,000,000 to be issued by the Company, a copy of which is produced to the Meeting marked “C” and signed by the chairman of the Meeting for the purpose of identification:

- (a) the Subscription Agreement and the transactions contemplated under or incidental to the Subscription Agreement be and are hereby approved, confirmed and ratified; and
- (b) the Directors be and are hereby authorised to take all steps necessary, desirable or expedient in their opinion to implement and/or give effect to the terms of the Subscription Agreement including but not limited to the issue of the Subscription Shares and the Convertible Bonds and the New Shares pursuant to conversion of the Convertible Bonds.”

### 4. ORDINARY RESOLUTION

“**THAT** subject to the passing of the Special Resolution numbered 1 and the Ordinary Resolutions numbered 2 and 3 set out in the notice convening this Meeting, the whitewash waiver (the “Whitewash Waiver”) to be applied by the Ajia Parties to the executive director of the corporate finance division of the Securities and Futures Commission for waiving the obligation of the Ajia Parties and parties acting in concert with any one of them to extend a general offer to acquire the issued New Shares (excluding the New

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## NOTICE OF SGM

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Shares which are owned or the Subscription Shares to be acquired by the Ajia Parties and parties acting in concert with any of them) under Rule 26 of the Hong Kong Code on Takeovers and Mergers arising from acquisition of the Subscription Shares be and is hereby approved and that the Directors be and are hereby authorised to do all acts and things and execute all documents which they consider necessary, desirable or expedient to implement and/or give effect to any matters relating to or in connection with the Whitewash Waiver.”

### 5. ORDINARY RESOLUTION

“**THAT** subject to the passing of Special Resolution numbered 1 and Ordinary Resolutions numbered 2, 3 and 4, the 52,750,000 outstanding options granted by the Company pursuant to the share option scheme adopted on 13 April 2000 be cancelled.”

### 6. SPECIAL RESOLUTION

“**THAT** subject to the approval by the Registrar of Companies in Bermuda and the completion of the transactions under the Subscription Agreement, the name of the Company be changed to “North Asia Strategic Holdings Limited” and that a new Chinese name of “北亞策略控股有限公司” be adopted for identification purposes only to replace the existing Chinese name of “亞鋼集團有限公司” and the Directors be and are hereby authorised to do all acts and things and execute all documents they consider necessary, desirable or expedient to effect the change of name and the adoption of the new Chinese name for identification purposes only on behalf of the Company.”

For and on behalf of the Board of Directors of  
**iSteelAsia Holdings Limited**  
**Andrew Cho Fai Yao**  
*Chairman*

Hong Kong, 20 June 2005

*Registered Office:*  
Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

*Head office and principal place  
of business:*  
Rooms 4902-8  
Hopewell Centre  
183 Queen’s Road East  
Wanchai, Hong Kong

#### *Notes:*

1. A member entitled to attend and vote at the Meeting convened by the above notice is entitled to appoint one or, if he holds two or more shares, more proxies to attend and, subject to the provisions of the bye-laws of the Company, vote in his stead. A proxy need not be a member of the Company.

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## NOTICE OF SGM

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2. A form of proxy for use at the Meeting is enclosed. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and returned together with a power of attorney or other authority (if any) under which it is signed or a certified copy of that power or authority to the Company's branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not later than 48 hours before the time of the Meeting or adjourned meeting.
3. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the Meeting or any adjournment thereof, should he so wish.
4. In the case of joint registered holders of any Shares, any one of such persons may vote at the Meeting or the adjourned meeting, either personally or by proxy, in respect of such Shares as if he/she were solely entitled thereto, but if more than one of such joint registered holders be present at the Meeting or the adjourned meeting, either personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such Shares shall be accepted to the exclusion of the votes of the other joint registered holders.
5. All the above Resolutions except Ordinary Resolution numbered 5 and Special Resolution numbered 6 will be put to the independent shareholders of the Company by poll.
6. All the holders of Options who are also Shareholders must abstain from voting in respect of Ordinary Resolution numbered 5 in accordance with the rules of the share option scheme of the Company dated 13 April 2000.