

**iSteelAsia Holdings Limited**

亞鋼集團有限公司\*



**2004/05** 第三季度  
業績報告  
3rd Quarterly Report

## THIRD QUARTERLY REPORT FOR THE NINE MONTHS ENDED 31ST DECEMBER 2004

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

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

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

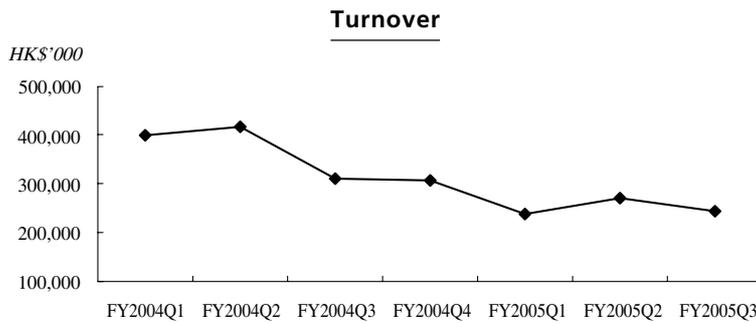
*The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.*

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

HIGHLIGHTS

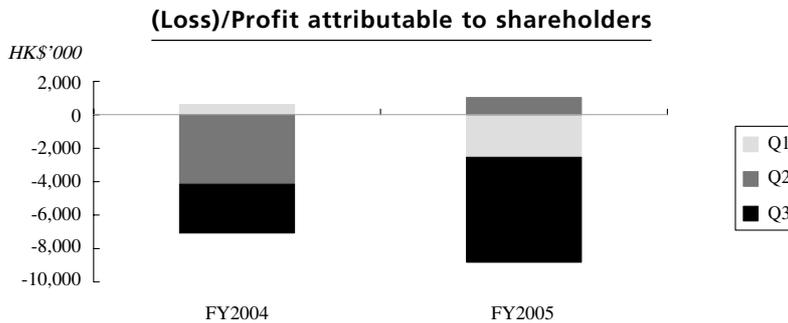
**Turnover**

For the nine months and three months ended 31st December 2004, the iSteelAsia Group recorded turnover of approximately HK\$751 million and HK\$244 million, respectively, representing a 33% and 21% decrease by comparing with the results in the corresponding periods last year.



**(Loss)/Profit attributable to shareholders**

In view of the current volatile market and the risks so associated with, the management of the iSteelAsia Group took a prudent review on the carrying value of its assets and operations and made an aggregate provision for diminution in value including inventories, receivables, deferred tax assets and deposits in dispute amounting to HK\$9,889,000 in the third quarter results. These provisions have been made on a very conservative scenario basis and it is expected that unless market condition does deteriorate dramatically, a full utilisation of such provisions shall not be necessary. Taking out the effect of such provisions, the Group achieved profit attributable to shareholders of approximately HK\$3,600,000 in the third quarter and HK\$2,100,000 for the nine months ended 31st December 2004.



## RESULTS

The followings are the unaudited consolidated results of iSteelAsia Holdings Limited (“the Company” or “iSteelAsia”) and its subsidiaries (collectively “the Group” or “the iSteelAsia Group”) for the nine months and three months ended 31st December 2004, together with the comparative unaudited figures for the corresponding periods in 2003:

	Note	For the nine months ended 31st December		For the three months ended 31st December	
		2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Turnover	2				
— Sales		<b>746,493</b>	1,113,991	<b>241,291</b>	309,181
— Commission		<b>4,671</b>	9,317	<b>2,225</b>	801
Cost of sales		<b>(727,033)</b>	(1,097,293)	<b>(234,249)</b>	(302,008)
Gross profit		<b>24,131</b>	26,015	<b>9,267</b>	7,974
Other revenue		<b>766</b>	873	<b>90</b>	347
Selling and distribution expenses		<b>(6,439)</b>	(5,818)	<b>(1,563)</b>	(2,325)
General and administration expenses		<b>(16,983)</b>	(21,603)	<b>(7,401)</b>	(6,888)
Loss on disposal of a subsidiary company		<b>(194)</b>	—	<b>(194)</b>	—
Operating profit/(loss)		<b>1,281</b>	(533)	<b>199</b>	(892)
Finance costs		<b>(3,796)</b>	(6,122)	<b>(1,174)</b>	(1,939)
Loss before taxation		<b>(2,515)</b>	(6,655)	<b>(975)</b>	(2,831)
Taxation	3	<b>(5,274)</b>	(387)	<b>(5,320)</b>	(92)
Loss after taxation but before minority interests		<b>(7,789)</b>	(7,042)	<b>(6,295)</b>	(2,923)
Minority interests		—	600	<b>6</b>	7
Loss attributable to shareholders		<b>(7,789)</b>	(6,442)	<b>(6,289)</b>	(2,916)
Loss per share					
— Basic	4	<b>(0.49) cents</b>	(0.41) cents	<b>(0.39) cents</b>	(0.18) cents

Notes:

### 1. Basis of preparation

The unaudited condensed consolidated accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants. They are prepared under the historical cost convention, except that investments are stated at fair value.

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

### 2. Turnover

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

### 3. Taxation

Taxation consisted of:

	For the nine months ended 31st December		For the three months ended 31st December	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Current taxation				
Mainland China enterprise income tax				
— Current period	1,299	388	866	93
— Tax refund	(508)	(1)	(29)	(1)
Write-off of deferred tax assets	4,483	—	4,483	—
	<u>5,274</u>	<u>387</u>	<u>5,320</u>	<u>92</u>

The Company is exempted from taxation in Bermuda until 2016. No provision for Hong Kong profits tax has been provided as the Group had no assessable profit in Hong Kong during the nine months and three months ended 31st December 2004 (2003: Nil). Subsidiaries established in Mainland China are subject to Mainland China enterprise income tax at rates ranging from 15% to 33% (2003: 15% to 33%).

### 4. Loss per share

The calculations of basic loss per share for the nine months and three months ended 31st December 2004 were based on the unaudited consolidated loss attributable to shareholders of approximately HK\$7,789,000 (2003: HK\$6,442,000) and HK\$6,289,000 (2003: HK\$2,916,000), respectively, and on the weighted average number of 1,596,395,396 (2003: 1,568,932,932) shares and 1,596,407,537 (2003: 1,577,392,593) shares in issue during the nine months and three months ended 31st December 2004, respectively.

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

## 5. Dividends

The Directors do not recommend the payment of an interim dividend for the nine months ended 31st December 2004.

## 6. Movements in share capital and reserves

For the nine months ended 31st December 2004, movements in share capital and reserves are as follows:

	Share capital	Reserves					Total
		Share premium	Capital reserve	Asset revaluation reserve	Cumulative translation adjustments	Accumulated losses	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance, 1st April 2003	156,450	11,099	2,700	(21,865)	153	(135,186)	(143,099)
Loss attributable to shareholders	—	—	—	—	—	(6,442)	(6,442)
Translation adjustments	—	—	—	—	4	—	4
Change in fair value of a long-term investment	—	—	—	252	—	—	252
Issuance of shares upon exercise of warrants	68	—	—	—	—	—	—
Issuance of shares under a subscription agreement	3,120	—	—	—	—	—	—
Balance, 31st December 2003	159,638	11,099	2,700	(21,613)	157	(141,628)	(149,285)
Loss attributable to shareholders	—	—	—	—	—	(19,269)	(19,269)
Translation adjustments	—	—	—	—	(52)	—	(52)
Change in fair value of a long-term investment	—	—	—	1,199	—	—	1,199
Investment revaluation reserve transferred to profit and loss account upon recognition of impairment loss of a long-term investment	—	—	—	20,414	—	—	20,414
Balance, 31st March 2004	159,638	11,099	2,700	—	105	(160,897)	(146,993)
Loss attributable to shareholders	—	—	—	—	—	(7,789)	(7,789)
Translation adjustments	—	—	—	—	(67)	—	(67)
Issuance of shares upon exercise of warrants	21	—	—	—	—	—	—
Balance, 31st December 2004	<u>159,659</u>	<u>11,099</u>	<u>2,700</u>	<u>—</u>	<u>38</u>	<u>(168,686)</u>	<u>(154,849)</u>

## BUSINESS REVIEW

### Financial and Business Performance

The Board of Directors (“the Board”) reports below the iSteelAsia Group’s third quarter results for the financial year ending 31st March 2005. For the nine months and three months ended 31st December 2004, the iSteelAsia Group recorded turnover of approximately HK\$751 million and HK\$244 million, respectively, representing a 33% and 21% decrease by comparing with the results in the corresponding periods last year.

The Group is undergoing a very tough period with its market still in turmoil under the influence of selective austerity measures and unprecedented price volatility which both have an adverse effect on the Group’s operation and hence is working hard to readjust its strategy and realign its focus for business development to adapt to the new macro-economic environment. As mentioned in the previous quarter reports, the reasons for the decrease in turnover are: firstly, there is the lasting adverse effect on the steel demand due to the time-lagged nature of the PRC Central Government’s continuous macro-entrenchment policies to limit the excessive investments in several overheated industries including the steel, aluminum, automobile and cement industries as well as the real estate sector. In this regard, the proportion of the steel consumption in national economy decreased accordingly. Secondly, the management is continuously implementing efforts in allocation of the Group’s limited financial resources to the selected higher margin steel products that could have brought greater return to shareholders. This could be evidenced from the fact that, despite the decrease in turnover, the gross margin for the nine months ended 31st December 2004 increased 39% to approximately 3.2% by comparing the gross margin for the same period of last year. As a result, the Group achieved an operating profit before finance costs of approximately HK\$1,281,000 for the nine months ended 31st December 2004, which improved from a loss of HK\$533,000 in the same period last year. In view of the current volatile market and the risks so associated with, the management of the iSteelAsia Group took a prudent review on the carrying value of its assets and operations and made an aggregate provision for diminution in value including inventories, receivables, deferred tax assets and deposits in dispute amounting to HK\$9,889,000 in the third quarter results. These provisions have been made on a very conservative scenario basis and it is expected that unless market condition does deteriorate dramatically, a full utilisation of such provisions shall not be necessary. Taking out the effect of such provisions, the Group achieved profit attributable to shareholders of approximately HK\$3,600,000 in the third quarter and HK\$2,100,000 for the nine months ended 31st December 2004.

Total cost excluding cost of inventories sold and finance costs (“Operating Cost”) was approximately HK\$23,422,000 for the nine months ended 31st December 2004, representing a decrease of over 15% over the same period in last year. Operating Cost to turnover ratio had decreased substantially since 2001. The ratio has decreased from 72% in early 2001 and stabilised around the level of a few percent in the current few years. The decrease reflected the Group’s successful efforts in optimising its resources for economy of scale to achieve business growth. On a closer look into the Operating Cost, it shows us that the selling and distribution expenses increased 11% to approximately

HK\$6,439,000 against that for the same period last year. The increase was mainly due to the substantial increases in global storage and freight charges occurred especially in the past months. Such increases had outweighed the savings generated from decrease in turnover handling so that there was an increase in overall selling and distribution expenses. On the other hand, total general and administration expenses for the nine months ended 31st December 2004 decreased by 21% to approximately HK\$16,983,000 comparing the expenses incurred for the corresponding period last year. Such decrease was led by the resources realignment to products that yield a higher return which resulted in some unnecessary administrative costs being eliminated.

## OUTLOOK

Despite the results of the third quarter, the management is optimistic about the future of the iSteelAsia Group although there remain uncertainties and price volatility due to the unanticipated macro-control measures exerted by the Central Government in the PRC. However, we believe that such a package of macro-entrenchment policies exerted will ultimately bring in long-term benefits to the steel industry in the PRC as it will help to crystallise a more stable and sustainable growth environment in future.

Based on the market situation of 2004, the trend of PRC steel market would continue to show fluctuations. The management's view is that over the long run, the overall domestic steel price will be more correlated to the trend of international steel market price, hence, the gap between domestic steel price and international market price should be smaller. The PRC crude steel production forecast for 2005 whole year will attain 300 million tons while GDP growth is expected to be around 8% or more.

According to the most recent figures available to IISI, China's crude steel production of December 2004 continued upward trend set in the past month, with total production of 27.2 million tons. The total production of 2004 was set at about 272.5 million tons, representing an increase of 23.2% compared to 2003. China is again the largest producer of crude steel and accounted for 25.8% of all crude steel produced in the world in 2004.

The iSteelAsia Group will continue its path to increase the shareholders' value by continuing to enhance its revenue base. The iSteelAsia Group will also continue to undertake rationalisation of its resources and corporate structure to achieve best operational efficiency and build a sound customers' base for future growth. The iSteelAsia Group will seek to improve its balance sheet and financial position by various means so as to put the Group in a much more soundly position to meet different challenges in coming future.

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

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

As at 31st December 2004, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or (c) were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

### Long positions in the Shares and underlying shares of the Company

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

*Notes:*

1. These shares are the ordinary shares ("Shares") of HK\$0.10 each in the issued share capital of the Company.
2. The warrants of the Company ("Warrants") are listed and entitle the holders to subscribe in cash for Shares at a subscription price of HK\$0.10 each (subject to adjustment) and are exercisable between 18th June 2002 and 17th June 2005. These Warrants represent physically settled equity derivatives.
3. As at 31st December 2004, TN Development Limited ("TN Development") owns 163,367,600 Shares and 39,260,320 Warrants. Van Shung Chong (B.V.I.) Limited ("VSC BVI") owns 54% of the issued share capital of TN Development and Mr. Andrew Cho Fai Yao owns 10% of the issued share capital of TN Development. Mr. Andrew Cho Fai Yao is one of the two directors of TN Development. These interests of the aforesaid Director in the securities of the Company were corporate interests.

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

4. As at 31st December 2004, Huge Top Industrial Ltd. ("Huge Top") owns 159,811,344 Shares and 31,962,268 Warrants. Mr. Andrew Cho Fai Yao directly holds approximately 11.90% and indirectly through Perfect Capital International Corp. ("Perfect Capital") owns approximately 42.86% of the issued share capital of Huge Top and is entitled to exercise more than one-third of the voting power at general meetings of Huge Top. Mr. Andrew Cho Fai Yao owns the entire issued share capital of Perfect Capital. Mr. Andrew Cho Fai Yao is one of the two directors of Huge Top. These interests of the aforesaid Director in the securities of the Company were corporate interests.
5. As at 31st December 2004, VSC BVI owns 301,026,000 Shares and 60,205,200 Warrants and Huge Top owns approximately 47.05% of the issued share capital of Van Shung Chong Holdings Limited ("VSC"). VSC BVI is a wholly-owned subsidiary of VSC. Mr. Andrew Cho Fai Yao is one of the two directors of VSC BVI. These interests of the aforesaid Director in the securities of the Company were corporate interests.
6. As at 31st December 2004, Right Action Offshore Inc. ("Right Action") owns 102,400,000 Shares and 20,480,000 Warrants. Mr. Andrew Cho Fai Yao owns the entire issued share capital of Right Action and is also the sole director of that company. These interests were corporate interests in the Company.
7. Under the terms of the Company's share option scheme approved by the shareholders on 13th April 2000 (the "Old Scheme"), the Board may at their discretion, invite any full-time employees of the Company or any of the companies of the Group, including any executive Directors, to take up options to subscribe for Shares. The Old Scheme became effective upon the listing of the Shares on 20th April 2000 and was terminated on 10th June 2002.

Details of movement in the share options to subscribe for Shares granted to and held by certain Directors during the nine months ended 31st December 2004 under the Old Scheme were as follows:

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

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

For the nine months ended 31st December 2004, the Company had complied the Model Code adopted on 31st March 2004 as the required standard against which Directors must measure their conduct regarding transactions in securities of the Company according to Rule 5.46 of the GEM Listing Rules.

Save as disclosed above, as at 31st December 2004, none of the Directors and the chief executives of the Company or their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (include interests and short positions which they are taken or deemed to have under provisions of SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange as referred in Rules 5.46 to 5.67 of the GEM Listing Rules.

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

As at 31st December 2004, so far as is known to the Directors the following persons (other than the Directors and chief executives of the Company the interests of which were disclosed above) had an interest or short position in the Shares and underlying shares of the Company which were disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO (including interests or short positions which a Director is taken or deemed to have under such provisions of the SFO) and/or were directly or indirectly interested in 10% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group together with particulars of any options in respect of such capital:

**Long positions**

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

Name	Nature of interest	Number of Shares and approximate % of shareholding	Number of Warrants	Aggregate interest	Notes
<b>Substantial shareholders of the Company</b>					
Perfect					
Capital	— indirectly through Huge Top	159,811,344 (10.01%)	31,962,268	191,773,612	
	— indirectly through VSC BVI	301,026,000 (18.86%)	60,205,200	361,231,200	
	— indirect deemed interest through TN Development	163,367,600 (10.23%)	39,260,320	202,627,920	
		<u>624,204,944 (39.10%)</u>	<u>131,427,788</u>	<u>755,632,732</u>	1, 2 & 3
Ms. Miriam Che Li Yao	— indirect deemed interest through Huge Top	159,811,344 (10.01%)	31,962,268	191,773,612	
	— indirect deemed interest through VSC BVI	301,026,000 (18.86%)	60,205,200	361,231,200	
	— indirect deemed interest through TN Development	163,367,600 (10.23%)	39,260,320	202,627,920	
		<u>624,204,944 (39.10%)</u>	<u>131,427,788</u>	<u>755,632,732</u>	1,2,3 & 4
TN Development	— directly	163,367,600 (10.23%)	39,260,320	202,627,920	5
<b>Other shareholder of the Company</b>					
Right Action	— directly	102,400,000 (6.41%)	20,480,000	122,880,000	

*Notes:*

1. VSC BVI owns 54% of the share capital of TN Development and is deemed to be interested in the 163,367,600 Shares and 39,260,320 Warrants held by TN Development as at 31st December 2004. VSC BVI directly owns 301,026,000 Shares and 60,205,200 Warrants as at 31st December 2004. VSC BVI is therefore directly and indirectly interested in an aggregate of 464,393,600 Shares and 99,465,520 Warrants.
2. VSC owns the entire issued share capital of VSC BVI, VSC is therefore deemed to be interested in an aggregate of 464,393,600 Shares and 99,465,520 Warrants.
3. Perfect Capital owns approximately 42.86% of the issued share capital of Huge Top as at 31st December 2004. Huge Top is beneficially interested in approximately 47.05% of the issued share capital of VSC as at 31st December 2004 and Perfect Capital and Huge Top are therefore deemed to be interested in the 163,367,600 Shares and 39,260,320 Warrants held by TN Development and the 301,026,000 Shares and 60,205,200 Warrants held by VSC BVI as at 31st December 2004. As at the same date, Huge Top also directly owns 159,811,344 Shares and 31,962,268 Warrants. Huge Top is therefore directly and indirectly interested in an aggregate of 624,204,944 Shares and 131,427,788 Warrants, and Perfect Capital is indirectly interested in the same aggregate interests.
4. As at 31st December 2004, Ms. Miriam Che Li Yao is one of the two directors for TN Development and Huge Top. Ms. Miriam Che Li Yao is therefore indirectly interested in an aggregate of 624,204,944 Shares and 131,427,788 Warrants.
5. All Shares held by TN Development are, or are intended to be, the subject of options exercisable, in certain circumstances, by designated employees and founding members pursuant to the share option agreements and the revenue option agreements, respectively as disclosed in the Company's prospectus dated 14th April 2000. The sole purpose of TN Development is to provide an avenue to motivate the Company's employees and founding members while at the same time not incurring any dilution effect to the public investors of the Company.

Save as disclosed above, as at 31st December 2004, the Directors were not aware of any other person (other than the Directors and chief executives of the Company the interests of which were disclosed above) who had an interest or short position in the Shares and underlying shares of the Company which were disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO (including interests or short positions which a Director is taken or deemed to have under such provisions of the SFO) and/or were directly or indirectly interested in 10% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group together with particulars of any options in respect of such capital.

## COMPETING INTERESTS

Mr. David Michael Faktor ("Mr. Faktor"), a non-executive Director of the Company, is a director of Stemcor Holdings Limited ("Stemcor") whose business is principally engaged in international steel trading. As at 31st December 2004, Mr. Faktor holds 202,500 shares in Stemcor which represents 3% of the issued share capital of Stemcor.

Mr. Andrew Cho Fai Yao ("Mr. Yao") is the chairman of the Board of the Company, and also the chairman of the board of directors of VSC (listed on the main board of the Stock Exchange), and VSC is also engaged in steel trading business. As at 31st December 2004, the interests and short positions of Mr. Yao in the shares, underlying shares or debentures of VSC or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or (b) were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or (c) were required pursuant to the Model Code to be notified to the Stock Exchange, were as follows:

<b>Nature of interest</b>	<b>Attributable interest to Mr. Yao</b>	<b>Number of shares</b> <i>(Note 1)</i>	<b>Approximate percentage</b>
— Corporate interest held by Huge Top <i>(Note 2)</i>	deemed interest (indirectly)	173,424,000	47.05%
— Personal interest	100% (directly)	7,100,000	1.93%

### Notes:

1. These shares are the ordinary shares of HK\$0.10 each in the issued share capital of VSC.
2. As at 31st December 2004, Huge Top holds 173,424,000 shares of VSC. Mr. Yao is one of the two directors of Huge Top. Mr. Yao directly holds approximately 11.90% and indirectly through Perfect Capital owns approximately 42.86% of the issued shares of Huge Top and is entitled to exercise more than one-third of the voting power at general meetings of Huge Top. Mr. Yao owns the entire issued share capital of Perfect Capital.

The Directors believe that there is a risk that such businesses may compete with those of the Group. However, the Directors are also of the view that the invaluable experience of Mr. Faktor and Mr. Yao in the steel industry will complement the development of the Group's business.

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

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the nine months ended 31st December 2004.

#### CORPORATE GOVERNANCE

In the opinion of Directors, the Company had complied with the "Board Practices and Procedures" as set out in Rules 5.34 to 5.45 of the GEM Listing Rules in force prior to 31st December 2004 throughout the period under review, except that the non-executive Directors are not appointed for a specific term. However, the non-executive Directors are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's Bye-laws.

#### AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") with written terms of reference based upon the guidelines recommended by the Hong Kong Institute of Certified Public Accountants. The duties of the Audit Committee include reviewing the Company's annual reports and quarterly reviews and providing advice and comments thereon to the Board. The Audit Committee is also responsible for reviewing and supervising the Company's financial reporting and internal control procedures. The Audit Committee comprises three independent non-executive Directors, namely Mr. Philip King Huen Ma, Mr. Kennedy Ying Ho Wong and Mr. Kenny King Ching



Tam. One of the members of the Audit Committee is an appropriate professional accounting expertise as required under Rule 5.08 of the GEM Listing Rules. These unaudited accounts for the nine months ended 31st December 2004 of the Company now reported on have been reviewed by the Audit Committee.

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

Hong Kong, 3rd February 2005

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

