

iSteelAsia

iSteelAsia Holdings Limited

(亞鋼集團有限公司)*

(Incorporated in Bermuda with limited liability)

THIRD QUARTER RESULTS FOR THE NINE MONTHS ENDED 31ST DECEMBER 2003

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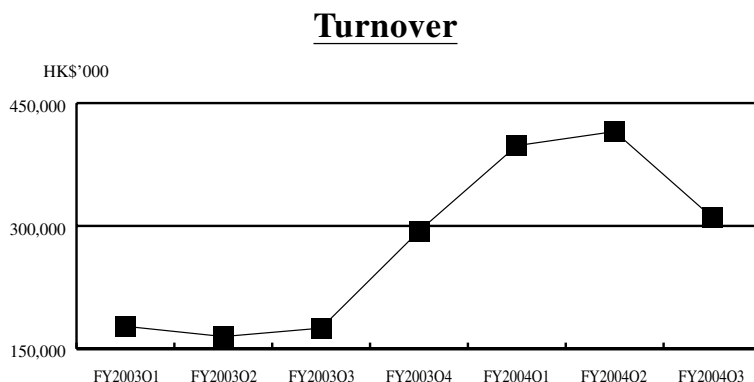
This announcement, for which the directors of iSteelAsia Holdings Limited (“the Directors”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (“the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

* For identification purpose only

HIGHLIGHTS

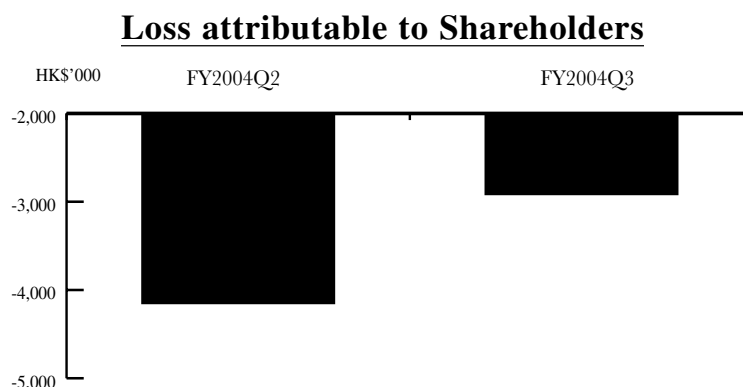
Turnover

For the nine months (“FY2004Q1 to FY2004Q3”) ended 31st December 2003, turnover was approximately HK\$1,123 million, representing an 117% increase by comparing the results in the corresponding period last year. As a matter of fact, the turnover had exceeded the total annual turnover of last year since September 2003.



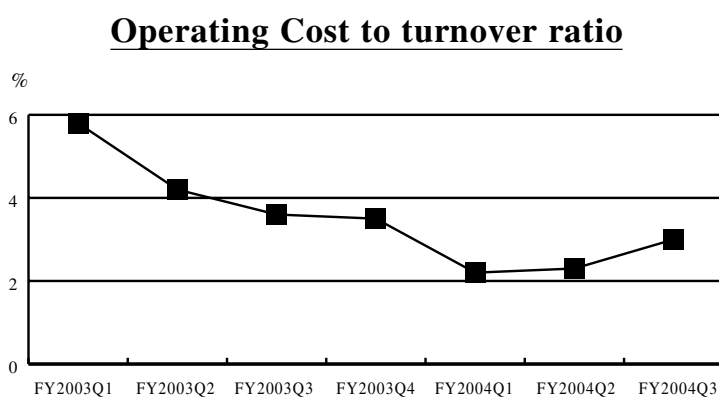
(Loss)/Profit attributable to shareholders

Despite the increase in turnover, the Group recorded a net loss of approximately HK\$6.4 million for the nine months ended 31st December 2003. As compared to the previous 3-month period ended 30th September 2003 (“FY2004Q2”), net loss for the current 3-month period ended 31st December 2003 (“FY2004Q3”) has been reduced from about HK\$4.2 million to HK\$2.9 million.



Operating cost

Operating Cost to turnover ratio had decreased from 5.8% in early 2002 and stabilised at around 2%-3%, reflecting the Group’s successful efforts in optimising its resources for economy of scale to achieve business growth.



RESULTS

The Board of Directors of iSteelAsia Holdings Limited (“the Company” or “iSteelAsia”) has the pleasure of presenting the unaudited consolidated results of the Company and its subsidiaries (together “the Group” or “iSteelAsia Group”) for the nine months and three months ended 31st December 2003 together with the comparative unaudited figures for the corresponding periods in 2002, as follows:

| | <i>Note</i> | For the nine months ended 31st December | | For the three months ended 31st December | |
|---|-------------|--|-------------------------|---|-------------------------|
| | | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> |
| Turnover | 2 | | | | |
| — Sales | | 1,113,991 | 507,200 | 309,181 | 171,841 |
| — Commission | | 9,317 | 10,276 | 801 | 3,335 |
| Cost of sales | | (1,097,293) | (481,126) | (302,008) | (165,820) |
| Gross profit | | 26,015 | 36,350 | 7,974 | 9,356 |
| Other revenue | | 873 | 1,042 | 347 | 192 |
| Selling and distribution expenses | | (5,818) | (4,213) | (2,325) | (1,951) |
| General and administration expenses | | (21,603) | (18,587) | (6,888) | (4,398) |
| Impairment loss of an investment | | — | (688) | — | — |
| Operating (loss)/profit | | (533) | 13,904 | (892) | 3,199 |
| Finance costs | | (6,122) | (4,516) | (1,939) | (1,649) |
| (Loss)/Profit before taxation | | (6,655) | 9,388 | (2,831) | 1,550 |
| Taxation | 3 | (387) | (855) | (92) | (267) |
| (Loss)/Profit after taxation but before minority interests | | (7,042) | 8,533 | (2,923) | 1,283 |
| Minority interests | | 600 | (748) | 7 | (281) |
| (Loss)/Profit attributable to shareholders | | (6,442) | 7,785 | (2,916) | 1,002 |
| (Loss)/Earnings per share | | | | | |
| — Basic | 4 | (0.41) cents | 0.50 cents | (0.18) cents | 0.06 cents |

Notes:

1. Basis of preparation and accounting policies

The unaudited condensed consolidated accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants (“HKSA”).

The unaudited condensed consolidated accounts should be read in conjunction with the 2003 annual accounts.

The accounting policies and methods of computation used in the preparation of these accounts are consistent with those used in the annual accounts for the year ended 31st March 2003 except that the Group has changed its accounting policy with respect to deferred taxation following the adoption of Statement of Standard Accounting Practice Number 12: Income Taxes (“SSAP12”), issued by HKSA, which is effective for accounting periods commencing on or after 1st January 2003.

In prior year, deferred taxation was provided for at the current taxation rate in respect of significant timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. Under the SSAP12 (revised), 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. The adoption of the SSAP12 (revised) has no significant effect on the Group’s results for the current or prior accounting periods.

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 | |
|--------------------------------------|--|-----------------|---|-----------------|
| | 2003 | 2002 | 2003 | 2002 |
| | HK\$’000 | HK\$’000 | HK\$’000 | HK\$’000 |
| Mainland China enterprise income tax | <u>387</u> | <u>855</u> | <u>92</u> | <u>267</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 during the nine months and three months ended 31st December 2003 (2002 : Nil). Subsidiaries established in Mainland China are subject to Mainland China enterprise income tax at the rates ranging from 15% to 33% (2002 : 15% to 33%).

4. (Loss)/Earnings per share

The calculations of basic (loss)/earnings per share for the nine months and three months ended 31st December 2003 were based on the unaudited consolidated loss attributable to shareholders of approximately HK\$6,442,000 (2002 : profit of HK\$7,785,000) and HK\$2,916,000 (2002 : profit of HK\$1,002,000) respectively and on the weighted average number of 1,568,932,932 (2002 : 1,564,500,035) shares and 1,577,392,593 (2002 : 1,564,500,104) shares in issue during the nine months and three months ended 31st December 2003 respectively.

No diluted (loss)/earnings per share is presented as the outstanding warrants and employee 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 2003.

6. Movements in share capital and reserves

Movements in share capital and reserves are as follows:

| | Share capital | | Reserves | | | | Total |
|--|----------------|-----------------|---------------------------|-----------------------------------|--------------------|------------------|------------------|
| | Share premium | Capital reserve | Asset revaluation reserve | Cumulative translation adjustment | Accumulated losses | | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Balance, 1st April 2002 | 156,450 | 11,099 | 2,700 | (18,552) | 145 | (141,776) | (146,384) |
| Net profit for the period | — | — | — | — | — | 7,785 | 7,785 |
| Translation adjustments | — | — | — | — | 3 | — | 3 |
| Change in fair value of a long-term investment | — | — | — | (3,530) | — | — | (3,530) |
| Balance, 31st December 2002 | 156,450 | 11,099 | 2,700 | (22,082) | 148 | (133,991) | (142,126) |
| Net loss for the period | — | — | — | — | — | (1,195) | (1,195) |
| Translation adjustments | — | — | — | — | 5 | — | 5 |
| Change in fair value of a long-term investment | — | — | — | 217 | — | — | 217 |
| Balance, 31st March 2003 | 156,450 | 11,099 | 2,700 | (21,865) | 153 | (135,186) | (143,099) |
| Net loss for the period | — | — | — | — | — | (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 (Note (i)) | 3,120 | — | — | — | — | — | — |
| Balance, 31st December 2003 | <u>159,638</u> | <u>11,099</u> | <u>2,700</u> | <u>(21,613)</u> | <u>157</u> | <u>(141,628)</u> | <u>(149,285)</u> |

Note:

- (i) On 20th October 2003, the Company, AFAC Equity, L.P., a limited partnership incorporated in Delaware, the United States of America (“the Subscriber”) and McKinsey & Company, Inc. Hong Kong, a company incorporated in Delaware, the United States of America (“McKinsey HK”) entered into a subscription agreement in relation to the subscription by the Subscriber of 31,200,000 new shares of the Company for HK\$3,120,000, representing a consideration of HK\$0.10 per share. The subscription is effected to fully settle the entire outstanding amount of US\$400,000 (equivalent to HK\$3,120,000) due by the Company to McKinsey HK.

7. Comparative figures

Certain comparative figures have been reclassified to conform with current period’s presentation.

BUSINESS REVIEW

Financial and Business Performance

For the nine months and three months ended 31st December 2003, the iSteelAsia Group recorded a turnover of approximately HK\$1,123 million and HK\$310 million, respectively, representing respective increase of 117% and 77% by comparing with the results in the corresponding periods last year. This achievement is attributable to the increase of iSteelAsia’s market share in the China steel market. This is also a testimony of the Group’s investment into the development of the sales infrastructure with deep market coverage and a reflection of the huge potential of the China steel market. Despite the increase in turnover, the Group recorded a net loss of approximately HK\$2.9 million for the three months ended 31st December 2003 and HK\$6.4 million for the nine months ended 31st December 2003. As compared to the previous 3-month period ended 30th September 2003, net loss for the current 3-month period ended 31st December 2003 has been reduced from about HK\$4.2 million to HK\$2.9 million.

During the period under review, particularly the first six months, a majority of iSteelAsia’s markets (namely, Guangzhou, Tianjin and Beijing) were severely affected by the unexpected epidemics of SARS in a manner significantly worse than the management’s expectation. Business activities and demands in these cities halted and dropped to near zero due to the inter-city quarantine restrictions, and in turn adversely affected the market prices and also customer demands of our steel products which increased inventory stock-up costs as customers were refraining from doing business. As such, the customers’ demands of these cities were highly volatile and under the SARS epidemic period were dropped to a marginal level. As we have mentioned in our previous quarter reports, this has eroded the gross margin of the Group to a great extent as we have to incur extra delivery costs in transporting goods from these affected areas to other less severely affected or unaffected areas to maintain the inventory turnover rate and liquidity of the Group. Among those adversely hit offices, Beijing and Tianjin were the worst hit with their focus predominantly on prepainted galvanized steel products. This has adversely affected the inventory turn rate of the Group after tying up the Group’s resources temporarily. As such, turnover for the FY2004Q3 was also reduced by approximately 25% from turnover of approximately HK\$415 million in FY2004Q2 to HK\$309 million. Although the Group was encouraged by the united efforts exerted by each office under such difficult situation to minimise losses, the erosion in gross margins inevitably caused a very material hit to the Group’s profitability. The Group has also decided to extend sales activities, in addition to the existing large cities, to second tier cities such as WuXi and ShungDe (Le Chong), which enhanced the ability to grow market shares in China and further diversify the existing customer bases;

however, such strategy also added initial set up cost to the operation. Although these moves should have only added one-time cost to the operation as well as initial lower margin for higher market share strategy which caused a lower net profit for the period under review, the Group believes the market expansion and diversity will have tremendous long term benefit. In FY2004Q3, the gross margin has improved as the detrimental effect caused under the SARS period was diminishing and expanded market share and diversified market base began to unveil its benefits.

With iSteelAsia's expansion into the second tier cities in China, which are the foundations of manufacturing plants, and with the growth in the major cities like Beijing, Shanghai, Guangzhou, Tianjin, Shenzhen and Chongqing, iSteelAsia covers almost the majority of the highest average annual income per capita cities in China. This coverage translates into high demands for household appliances, real estate properties and infrastructure construction, which are the key driving forces for steel consumption. The management is confident that the Group will be able to continue to tap these market opportunities and utilise the infrastructure in place to capitalise on these opportunities and benefit accordingly. For the nine months ended 31st December 2003, total cost excluding cost of inventories sold and finance cost ("Operating Cost") was approximately HK\$27,421,000, representing an increase of 17% over the same period in last year. The increase was mainly due to PRC market expansion and extra inventory handling costs incurred during the period under review, as well as in normal selling and distribution expenses, which was necessary to support the rapid growth in turnover. Using turnover as a base factor, Operating Cost to turnover ratio had decreased from 5.8% in early 2002 and stabilised at around 2%-3%, reflecting the Group's successful efforts in optimising its resources for economy of scale to achieve business growth.

OUTLOOK

With iSteelAsia's focused efforts in market expansion and diversified geographic coverage of its operation, along with the promising macro situation in the PRC, the management's optimistic view about the future of the iSteelAsia Group as a major steel distributor in the PRC should be able to be crystallised. The China steel market is becoming more and more important among the world steel markets. Based on published 2002 statistics, China is not only the biggest steel producer in the world, she is also the biggest steel consuming as well as steel importing country among the world players.

According to the latest statistics, China's crude steel production of December 2003 continued upward trend set in the past months, with year-to-date production of approximately 220 million metric tones, 9.7% higher than the year-to-date figure in the past year. It is obvious that China has the vast potential for the Group to flourish.

The iSteelAsia Group will continue its path to increase the shareholders' value and operate itself as a full value-added service provider through organic growth, and if the right opportunity arises, through mergers and acquisitions or other form of cooperation. The iSteelAsia Group will also undertake rationalisation of its resources and corporate structure to achieve best operational efficiency and build a sound customers' base for future growth. On behalf of the Board of Directors and the iSteelAsia team, I would like to extend my special thanks to our worldwide suppliers and customers for their trusts and support in our products and services throughout the years. I would also like to take this opportunity to wish all of you a very happy, healthy, and prosperous Year of the Monkey. I also wish to express my sincere appreciation to our shareholders for their confidence in iSteelAsia, as well as our staff for their dedication and continuous commitment to excellence.

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

As at 31st December 2003, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which a Director is taken or deemed to have under such provisions of the SFO or as recorded in the register required to be kept under Section 352 of SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, were as follows:

Long positions in the Shares and underlying shares of the Company

| Name | Type of interest | Attributable interest to the Director | Number of Shares and approximate % of shareholding (Note 1) | Number of Warrants (Note 2) | Number of options | Aggregate interest |
|------------------------|---|---------------------------------------|--|--------------------------------|-------------------|--------------------|
| Mr. Andrew Cho Fai Yao | — Corporate interest held by TN Development (Note 3) | deemed interest (indirectly) | 163,467,600 (10.24%) | 39,260,320 | — | 202,727,920 |
| | — 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 |
| | | | 726,704,944 (45.52%) | 151,907,788 | 5,000,000 | 883,612,732 |

| Name | Type of interest | Attributable interest to the Director | Number of Shares and approximate % of shareholding (Note 1) | Number of Warrants (Note 2) | Number of options | Aggregate interest |
|------------------------|---|---------------------------------------|--|--------------------------------|-------------------|--------------------|
| Ms. Miriam Che Li Yao | — Corporate interest held by TN Development (Note 3) | deemed interest (indirectly) | 163,467,600 (10.24%) | 39,260,320 | — | 202,727,920 |
| | — 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 |
| | — Personal interest (Note 7) | 100% (directly) | — (—) | — | 7,500,000 | 7,500,000 |
| | | | <u>624,304,944 (39.11%)</u> | <u>131,427,788</u> | <u>7,500,000</u> | <u>763,232,732</u> |
| Ms. Drina C. Yue | — Personal interest (Note 7 & 8) | 100% (directly) | — (—) | — | 7,000,000 | 7,000,000 |
| Mr. Daniel Takuen Shih | — Personal interest (Note 8) | 100% (directly) | — (—) | — | 2,000,000 | 2,000,000 |

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 2003, TN Development Limited (“TN Development”) owns 163,467,600 Shares and 39,260,320 Warrants. Van Shung Chong (B.V.I.) Limited (“VSC BVI”) owns 54% of the issued share capital of TN Development and Mr. Andrew Cho Fai Yao owns 10% of the issued share capital of TN Development. The board of directors of TN Development only comprises Mr. Andrew Cho Fai Yao and Ms. Miriam Che Li Yao. These interests of the aforesaid Directors in the securities of the Company were corporate interests.

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

4. As at 31st December 2003, Huge Top Industrial Ltd. ("Huge Top") owns 159,811,344 Shares and 31,962,268 Warrants. Mr. Andrew Cho Fai Yao directly holds 10% and indirectly through Perfect Capital International Corp. ("Perfect Capital") owns more than one-third of the issued share capital of Huge Top. Mr. Andrew Cho Fai Yao owns the entire issued share capital of Perfect Capital. The board of directors of Huge Top only comprises Mr. Andrew Cho Fai Yao and Ms. Miriam Che Li Yao. These interests of the aforesaid Directors in the securities of the Company were corporate interests.
5. As at 31st December 2003, VSC BVI owns 301,026,000 Shares and 60,205,200 Warrants and Huge Top owns approximately 49.15% of the issued share capital of Van Shung Chong Holdings Limited ("VSC"). Mr. Andrew Cho Fai Yao and Ms. Miriam Che Li Yao are directors of VSC. VSC BVI is a wholly-owned subsidiary of VSC. The board of directors of VSC BVI only comprises Mr. Andrew Cho Fai Yao and Ms. Miriam Che Li Yao. These interests of the aforesaid Directors in the securities of the Company were corporate interests.
6. As at 31st December 2003, 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 of Directors of the Company may at their discretion, invite any full-time employees of the Company or any of the companies of the Group, including any executive directors, to take up options to subscribe for Shares. The Old Scheme became effective upon the listing of the Shares on 20th April 2000.

Details of movements in the share options to subscribe for Shares granted to and held by certain Directors during the nine months ended 31st December 2003 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 |
| Ms. Miriam Che Li Yao | 3rd July 2000 | HK\$0.360 | 3rd July 2000 to 30th September 2001 | 1st October 2001 to 12th April 2010 | 2,500 | — | 2,500 |
| | 7th November 2000 | HK\$0.485 | 7th November 2000 to 7th November 2001 | 8th November 2001 to 12th April 2010 | 5,000 | — | 5,000 |
| Ms. Drina C. Yue | 3rd July 2000 | HK\$0.360 | 3rd July 2000 to 30th September 2001 | 1st October 2001 to 12th April 2010 | 2,000 | — | 2,000 |
| | 7th November 2000 | HK\$0.485 | 7th November 2000 to 7th November 2001 | 8th November 2001 to 12th April 2010 | 5,000 | — | 5,000 |

No options under the Old Scheme were granted, exercised, lapsed or cancelled during the period. The Old Scheme was terminated on 10th June 2002. Upon termination of the Old Scheme, 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 GEM Listing Rules requirements. Up to the date of this announcement, no options have been granted pursuant to the New Scheme. All the above-mentioned options are unlisted and represent physically settled equity derivatives.

8. Employee options to purchase Shares from TN Development

| Name | Number of employee options | | |
|------------------------|----------------------------|-----------------------------|---------------|
| | Beginning of period | Exercised during the period | End of period |
| Ms. Drina C. Yue | 20,480,000 | (20,480,000) | — |
| Mr. Daniel Takuen Shih | 2,000,000 | — | 2,000,000 |

Notes:

- (i) Each of Drina C. Yue and Daniel Takuen Shih has been granted an option to purchase 30,720,000 Shares (balance as at 31st December 2003 : Nil) and 2,000,000 Shares respectively from TN Development, at an exercise price per Share of HK\$0.054, under separate share option agreements both dated 13th April 2000. Each option may be exercised in whole or in part in the following manner:
- (a) During the period starting from 13th April 2001 to 12th April 2002, the option may be exercised up to one-third of such Shares.
 - (b) During the period starting from 13th April 2002 to 12th April 2003, the option may (to the extent not exercised in accordance with (a) above) be exercised up to two-thirds of such Shares.
 - (c) During the period starting from 13th April 2003 to 12th April 2004, the option may (to the extent not exercised in accordance with (a) and (b) above) be exercised in full.
- (ii) All the above-mentioned options are unlisted and represent physically settled equity derivatives.

Save as disclosed above, as at 31st December 2003, none of the Directors and the chief executive of the Company or their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which a Director is taken or deemed to have under such provisions of the SFO) or as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealings by Directors as referred in Rules 5.40 to 5.58 of the GEM Listing Rules.

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 31st December 2003, so far as is known to the Directors the following persons (other than the Directors and chief executive of the Company the interests of which were disclosed above) had an interest or short position in the Shares and underlying shares of the Company which were disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO (including interests or short positions which a Director is taken or deemed to have under such provisions of the SFO) and/or were directly or indirectly interested in 10% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group:

Long positions

| Name | Type of interest | Number of Shares and approximate % of shareholding | Number of Warrants | Aggregate interest | Notes |
|--|---|--|-----------------------|-----------------------|----------|
| <i>Substantial shareholders of the Company</i> | | | | | |
| VSC BVI | — directly | 301,026,000 (18.86%) | 60,205,200 | 361,231,200 | |
| | — indirect deemed interest through TN Development | 163,467,600 (10.24%) | 39,260,320 | 202,727,920 | |
| | | <u>464,493,600 (29.10%)</u> | <u>99,465,520</u> | <u>563,959,120</u> | 1 |
| VSC | — indirectly through VSC BVI | 301,026,000 (18.86%) | 60,205,200 | 361,231,200 | |
| | — indirect deemed interest through TN Development | 163,467,600 (10.24%) | 39,260,320 | 202,727,920 | |
| | | <u>464,493,600 (29.10%)</u> | <u>99,465,520</u> | <u>563,959,120</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 | 163,467,600 (10.24%) | 39,260,320 | 202,727,920 | |
| | | <u>624,304,944 (39.11%)</u> | <u>131,427,788</u> | <u>755,732,732</u> | 1, 2 & 3 |
| Perfect Capital | — indirectly through Huge Top | 159,811,344 (10.01%) | 31,962,268 | 191,773,612 | |
| | — indirectly through VSC BVI | 301,026,000 (18.86%) | 60,205,200 | 361,231,200 | |
| | — indirect deemed interest through TN Development | 163,467,600 (10.24%) | 39,260,320 | 202,727,920 | |
| | | <u>624,304,944 (39.11%)</u> | <u>131,427,788</u> | <u>755,732,732</u> | 1, 2 & 3 |
| TN Development | — directly | 163,467,600 (10.24%) | 39,260,320 | 202,727,920 | 4 |
| <i>Other shareholder of the Company</i> | | | | | |
| 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 163,467,600 Shares and 39,260,320 Warrants held by TN Development as at 31st December 2003. VSC BVI directly owns 301,026,000 Shares and 60,205,200 Warrants as at 31st December 2003. VSC BVI is therefore directly and indirectly interested in an aggregate of 464,493,600 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 464,493,600 Shares and 99,465,520 Warrants.
3. Perfect Capital owns more than one-third of the share capital of Huge Top as at 31st December 2003. Huge Top is beneficially interested in approximately 49.15% of the issued share capital of VSC as at 31st December 2003 and Perfect Capital and Huge Top are therefore deemed to be interested in the 163,467,600 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 2003. 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 624,304,944 Shares and 131,427,788 Warrants, and Perfect Capital is indirectly interested in the same aggregate interests.
4. All Shares held by TN Development are, or are intended to be, the subject of options exercisable, in certain circumstances, by designated employees and founding members pursuant to the share option agreements and the revenue option agreements, respectively as disclosed in the Company's prospectus dated 14th April 2000. The sole purpose of TN Development is to provide an avenue to motivate the Company's employees and founding members while at the same time not incurring any dilution effect to the public investors of the Company.

Save as disclosed above, as at 31st December 2003, the Directors were not aware of any other person (other than the Directors and chief executive of the Company the interests of which were disclosed above) who had an interest or short position in the Shares and underlying shares of the Company which were disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO (including interests or short positions which a Director is taken or deemed to have under such provisions of the SFO) and/or were directly or indirectly interested in 10% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

COMPETING INTERESTS

Mr. Ralph David Oppenheimer, a non-executive Director, is the chairman and chief executive of Stemcor Holdings Limited whose business is principally engaged in the international steel trading. Mr. Andrew Cho Fai Yao and Ms. Miriam Che Li Yao are the Chairman and the Deputy Chairman of the Company, respectively, and also the chairman and the deputy chairman of VSC, respectively, and VSC 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. Oppenheimer, Mr. Yao and Ms. Yao in the steel industry will complement the development of the Group's business.

Save as disclosed above, none of the Directors or the management shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete with the businesses 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 2003.

CORPORATE GOVERNANCE

In the opinion of Directors, the Company had complied with the "Board Practices and Procedures" as set out in Rules 5.28 to 5.39 of the GEM Listing Rules throughout the period under review, except that the non-executive Directors are not appointed for a specific term. However, the non-executive Directors are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's Bye-laws.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference based upon the guidelines recommended by the Hong Kong Society of Accountants. The duties of the audit committee include reviewing the Company's annual reports and quarterly reviews and providing advice and comments thereon to the Board of Directors. The audit committee is also responsible for reviewing and supervising the Company's financial reporting and internal control procedures. The audit committee comprises two independent non-executive Directors, namely Mr. Philip King Huen Ma and Mr. Kennedy Ying Ho Wong. These unaudited accounts for the nine months and three months ended 31st December 2003 of the Company now reported on have been reviewed by the Audit Committee.

On behalf of the Board of Directors,
DRINA C. YUE
Director and Chief Executive Officer

Hong Kong, 13th February 2004

This announcement will remain on the "Latest Company Announcements" page of the GEM website for 7 days from the day of its posting.