

iSteelAsia

iSteelAsia Holdings Limited

(亞鋼集團有限公司)*

(Incorporated in Bermuda with limited liability)

(Stock code: 8080)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31ST MARCH 2004

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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.

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

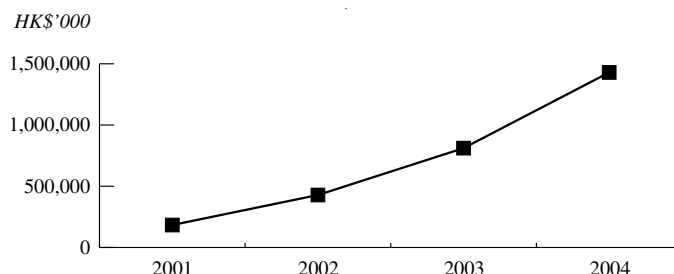
* For identification purposes only

HIGHLIGHTS

Turnover

Turnover for the year ended 31st March 2004 was approximately HK\$1,429 million, representing a 76.2% increase over the previous year ended 31st March 2003.

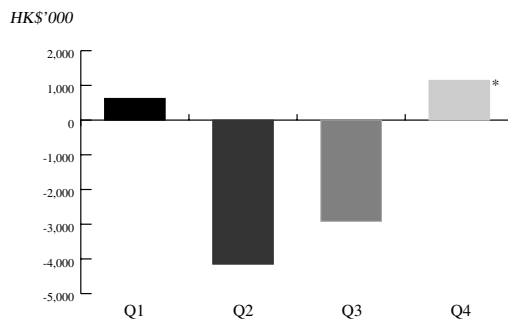
Consecutive Growth in Annual Turnover



Profit/(Loss) attributable to shareholders

With an exceptional impairment loss of the investment in AcrossAsia Multimedia Limited (“AAM”) of approximately HK\$20,414,000 by reclassifying the amount from investment revaluation reserve (already reflected in the Group’s prior years’ balance sheet, as such no effect to the Group’s net assets value from this reclassification) to profit and loss account, the iSteelAsia Group recorded a loss attributable to shareholders of approximately HK\$25.7 million for the year ended 31st March 2004. Taking out the effect of the impairment loss, the loss from operation was approximately HK\$5,297,000. As compared to the loss of approximately HK\$6,442,000 for the nine months ended 31st December 2003, the Group has successfully bucked the loss trend into a profit by capturing a profit attributable to shareholders of approximately HK\$1,145,000 for the three months ended 31st March 2004 (“Q4”).

Profit/(Loss) Attributable to Shareholders (by Quarter)

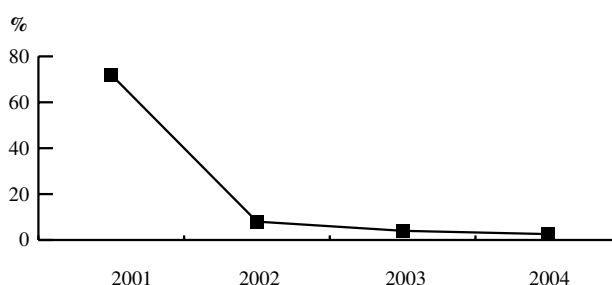


* The amount does not include the impairment loss of the investment in AAM of approximately HK\$20,414,000.

Operating cost

The iSteelAsia Group’s Operating Cost was approximately HK\$36.6 million for the year ended 31st March 2004. Operating Cost to Turnover ratio had decreased from 72.1% in early 2001 and stabilised at around 2.6% of total turnover, reflecting the Group’s successful efforts in optimising its resources for economy of scale to achieve business growth.

Operating Cost to Annual Turnover



RESULTS

The following is the audited consolidated results of iSteelAsia Holdings Limited (the “Company” or “iSteelAsia”) and its subsidiaries (collectively the “Group” or “iSteelAsia Group”) for the year ended 31st March 2004, together with the comparative audited figures for the corresponding year in 2003, as follows:

	<i>Note</i>	For the year ended	
		2004	2003
		HK\$'000	HK\$'000
Turnover	2	1,429,443	811,142
Cost of sales		(1,390,654)	(764,035)
Gross profit		38,789	47,107
Other revenue		1,078	1,370
Selling and distribution expenses		(7,891)	(6,132)
General and administrative expenses		(28,682)	(26,794)
Impairment loss of an investment		(20,414)	(803)
Operating (loss)/profit		(17,120)	14,748
Finance costs		(7,922)	(6,284)
(Loss)/Profit before taxation		(25,042)	8,464
Taxation	3	(889)	(1,840)
(Loss)/Profit after taxation but before minority interests		(25,931)	6,624
Minority interests		220	(34)
(Loss)/Profit attributable to shareholders		(25,711)	6,590
(Loss)/Earnings per share — Basic	4	(1.63) cents	0.42 cents

Notes:

1. Basis of preparation

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

Commencing from 1st April 2003, the iSteelAsia Group has adopted the revised Statement of Standard Accounting Practice (“SSAP”) 12 “Income taxes” issued by the HKSA, under which deferred taxation is provided in full on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. In prior year, deferred taxation was provided 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. The adoption of the revised SSAP 12 represents a change in accounting policy, which has no significant effect on the Group’s results for the prior accounting periods.

2. Turnover and segment information

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

a. Primary segment

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

	2004			
	Steel trading	Procurement services and others	Investment holding	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover — Sales to external customers	<u>1,420,927</u>	<u>8,516</u>	<u>—</u>	<u>1,429,443</u>
Segment result	<u>2,024</u>	<u>1,066</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				(822)
Operating loss				(17,120)
Finance costs				(7,922)
Taxation				(889)
Loss after taxation but before minority interests				<u>(25,931)</u>
Assets				
Segment assets	358,000	859	28,198	387,057
Unallocated assets				130
				<u>387,187</u>
Liabilities				
Segment liabilities	(373,448)	(16)	(50)	(373,514)
Unallocated liabilities				(1,028)
				<u>(374,542)</u>
Capital expenditure	1,021	17	—	<u>1,038</u>
Depreciation and amortisation	1,069	892	—	<u>1,961</u>
Significant non-cash expenditure (other than depreciation and amortisation)	769	91	20,414	<u>21,274</u>

	2003			
	Steel trading <i>HK\$'000</i>	Procurement services and others <i>HK\$'000</i>	Investment holding <i>HK\$'000</i>	Total <i>HK\$'000</i>
Turnover — Sales to external customers	<u>799,970</u>	<u>11,172</u>	<u>—</u>	<u>811,142</u>
Segment result	<u>9,343</u>	<u>6,157</u>	<u>(325)</u>	15,175
Other revenue	1,048	—	322	1,370
Impairment loss of a short-term investment	—	—	(803)	(803)
Unallocated corporate expenses				<u>(994)</u>
Operating profit				14,748
Finance costs				(6,284)
Taxation				<u>(1,840)</u>
Profit after taxation but before minority interests				<u>6,624</u>
Assets				
Segment assets	308,659	2,350	24,271	335,280
Unallocated assets				<u>3,438</u>
				<u>338,718</u>
Liabilities				
Segment liabilities	(319,083)	—	—	(319,083)
Unallocated liabilities				<u>(4,950)</u>
				<u>(324,033)</u>
Capital expenditure	1,881	187	—	<u>2,068</u>
Depreciation and amortisation	600	1,611	—	<u>2,211</u>
Significant non-cash expenditure (other than depreciation and amortisation)	4,411	193	803	<u>5,407</u>

b. Secondary segment

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

	2004			Total HK\$'000
	Hong Kong HK\$'000	Mainland China HK\$'000	Others HK\$'000	
Turnover — Sales to external customers	<u>39,029</u>	<u>1,390,414</u>	<u>—</u>	<u>1,429,443</u>
Segment result	<u>(21,072)</u>	<u>11,678</u>	<u>(6,904)</u>	<u>(16,298)</u>
Unallocated corporate expenses				<u>(822)</u>
Operating loss				<u>(17,120)</u>
Assets	<u>49,393</u>	<u>309,416</u>	<u>28,378</u>	<u>387,187</u>
Capital expenditure	<u>260</u>	<u>759</u>	<u>19</u>	<u>1,038</u>
	2003			Total HK\$'000
	Hong Kong HK\$'000	Mainland China HK\$'000	Others HK\$'000	
Turnover — Sales to external customers	<u>75,218</u>	<u>735,924</u>	<u>—</u>	<u>811,142</u>
Segment result	<u>(840)</u>	<u>21,860</u>	<u>(5,278)</u>	<u>15,742</u>
Unallocated corporate expenses				<u>(994)</u>
Operating profit				<u>14,748</u>
Assets	<u>41,464</u>	<u>272,768</u>	<u>24,486</u>	<u>338,718</u>
Capital expenditure	<u>259</u>	<u>1,770</u>	<u>39</u>	<u>2,068</u>

3. Taxation

Taxation consisted of:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Current taxation		
Hong Kong profits tax	—	—
Mainland China enterprise income tax		
— Current year	6,262	1,840
— Overprovisions in prior years	(890)	—
Deferred taxation relating to the origination and reversal of temporary differences	(4,483)	—
	889	1,840

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 year ended 31st March 2004. Subsidiaries operated in Mainland China are subject to Mainland China enterprise income tax at the rates ranging from 15% to 33% (2003: 15% to 33%).

4. (Loss)/Earnings per share

The calculation of basic loss per share for the year ended 31st March 2004 is based on the consolidated loss attributable to shareholders of approximately HK\$25,711,000 (2003: profit of HK\$6,590,000) and the weighted average of approximately 1,575,758,000 (2003: 1,564,500,000) ordinary shares in issue during the year.

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

5. Dividends

The Directors do not recommend the payment of a final dividend for the year ended 31st March 2004.

6. Movements in share capital and reserves

For the year ended 31st March 2004, movements in share capital and reserves are as follows:

	Share capital <i>HK\$'000</i>	Reserves					Total <i>HK\$'000</i>
		Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Investment revaluation reserve <i>HK\$'000</i>	Cumulative foreign currency translation adjustments <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	
As at 1st April 2002	156,450	11,099	2,700	(18,552)	145	(141,776)	(146,384)
Profit attributable to shareholders	—	—	—	—	—	6,590	6,590
Change in fair value of a long-term investment	—	—	—	(3,313)	—	—	(3,313)
Translation adjustment	—	—	—	—	8	—	8
As at 31st March 2003	156,450	11,099	2,700	(21,865)	153	(135,186)	(143,099)
Loss attributable to shareholders	—	—	—	—	—	(25,711)	(25,711)
Change in fair value of a long-term investment	—	—	—	1,451	—	—	1,451
Investment revaluation reserve transferred to profit and loss account upon recognition of impairment loss of an investment	—	—	—	20,414	—	—	20,414
Issue of shares upon exercise of warrants	68	—	—	—	—	—	—
Issue of shares for settlement of a payable	3,120	—	—	—	—	—	—
Translation adjustment	—	—	—	—	(48)	—	(48)
As at 31st March 2004	159,638	11,099	2,700	0	105	(160,897)	(146,993)

MANAGEMENT DISCUSSION AND ANALYSIS

Financial and Business Performance

The management of the iSteelAsia Group reports its fourth year annual results after listing for the financial year ended 31st March 2004. For the year ended 31st March 2004, the iSteelAsia Group recorded a turnover of approximately HK\$1,429 million, representing a 76.2% in growth by comparing the results in last year. With an exceptional impairment loss of the investment in AAM of approximately HK\$20,414,000 by reclassifying the amount from investment revaluation reserve (already reflected in the Group's prior years' balance sheet, as such no effect to the Group's net assets value from this reclassification) to profit and loss account, the consolidated loss attributable to shareholders for the year ended 31st March 2004 was approximately HK\$25,711,000. The investment net book value of AAM shares was HK\$0.187 per share which represents the market price of AAM shares as at 31st March 2004. Taking out the effect of the impairment loss, the loss from operation was approximately HK\$5,297,000. For the year under review, such operating result recorded was less than satisfactory as compared to the profit attributable to shareholders of approximately HK\$6,590,000 for the previous year ended 31st March 2003. Due to the outbreak of epidemics of SARS in March 2003, the first few quarterly results during the year ended 31st March 2004 had been severely affected, especially the results of three months ended 30th September 2003 ("Q2") and three months ended 31st December 2003 ("Q3"). As stated in the third quarterly report, the first six months in particular, 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 refrained from doing business. Fortunately, with persistent management efforts, the customers' demands and sales prices had picked up again in Q4 and thus, greatly improved our results in Q4. As compared to the loss of approximately HK\$6,442,000 for the nine months ended 31st December 2003, the Group has successfully bucked the loss trend into a profit by capturing a profit attributable to shareholders of approximately HK\$1,145,000 in Q4. During the year under review, the gross margin dropped in Q2 and rebounded in Q4 (Q1 — 2.6%, Q2 — 1.8%, Q3 — 2.6% and Q4 — 4.2%).

During the year under review, the Group had extended its sales activities by setting 2 more offices in the second tier cities such as Wuxi and Shunde (Le Chong), which enhanced the ability to grow market shares in China and further diversify the existing customer bases. However, such strategy also increased the operating cost of the Group. For the year ended 31st March 2004, total cost excluding cost of inventories sold, impairment loss of AAM shares and finance costs ("Operating Cost") was approximately HK\$36,573,000, representing an increase of 11.1% as compared to that of last year. The increase was mainly due to PRC market expansion and additional selling and distribution costs incurred which were necessary to support the rapid growth in turnover. Using turnover as a base factor, Operating Cost to turnover ratio had decreased from 72.1% in early 2001 and stabilised at around 2.6%, reflecting the Group's successful efforts in optimising its resources for economy of scale to achieve business growth.

Financial resources and liquidity

As at 31st March 2004, the iSteelAsia Group's aggregate short-term bank borrowings, comprising trust receipts bank loans and short-term working capital bank loans, were approximately HK\$51,426,000 (2003: HK\$57,134,000). The short-term working capital bank loans amounted to approximately

HK\$24,570,000 (2003: HK\$18,947,000) with interest rates ranging from 4.5% to 5.4% per annum (2003: 5.0% to 5.8% per annum). As at 31st March 2004, the gearing ratio (short-term bank borrowings divided by the shareholders' equity) was approximately 4.07 (2003: 4.28). The decrease in the gearing ratio was due to the decrease of short-term bank borrowings since the level of inventory has decreased. As at 31st March 2004, the iSteelAsia Group had aggregate banking facilities of approximately HK\$159,155,000 (2003: HK\$122,540,000) offered by several banks for overdrafts, loans and trade financing. Unused facilities as at the same date amounted to approximately HK\$69,691,000 (2003: HK\$37,131,000). These facilities were secured by (a) pledged bank deposits of approximately HK\$34,439,000 (2003: Nil); (b) corporate guarantees provided by iSteelAsia and/or (c) the iSteelAsia Group's inventories held under trust receipts bank loan arrangement.

Subsequent to 31st March 2004, a foreign bank had granted the iSteelAsia Group a facility of US\$7.5 million.

Cash and bank deposits

As at 31st March 2004, bank deposits of approximately HK\$34,439,000 (2003: Nil) were pledged as collateral for the Group's banking facilities.

As at 31st March 2004, the iSteelAsia Group's cash and bank deposits amounted to approximately HK\$89,872,000 (2003: HK\$49,240,000), of which approximately HK\$42,448,000 were denominated in Renminbi and deposited with the banks in China.

Investments

Investments for the Group only comprised equity interests in Stemcor Holdings Limited ("Stemcor") and AAM.

Under a share subscription agreement with Stemcor, Stemcor has granted the iSteelAsia Group a put option under which the iSteelAsia Group may require Stemcor to repurchase all of the shares subscribed by the iSteelAsia Group for HK\$23,400,000 (equivalent to US\$3,000,000). The due date for exercising the put option has been extended from 31st October 2002 to 31st October 2003 and further to 31st October 2004. On 13th May 2004, the iSteelAsia Group exercised its put option to sell its 3.5% equity interest in Stemcor for HK\$23,400,000 which was satisfied by a nine-month promissory note issued by Stemcor.

During the year ended 31st March 2004, the iSteelAsia Group had received dividend income of approximately HK\$421,000 (2003: HK\$311,000) from Stemcor. The return on investment was approximately 1.80% (2003: 1.33%).

In August 2001, the iSteelAsia Group acquired approximately 0.23% equity interest in AAM at a consideration of approximately HK\$22,550,000 which had been satisfied in full by the issue and allotment of iSteelAsia's ordinary shares. As at 31st March 2004, the carrying value of the investment in AAM was approximately HK\$2,136,000 (which is HK\$0.187 per share, representing the market price as at 31st March 2004) after a deficit on revaluation of such investment of approximately HK\$20,414,000. Such

deficit had already been reflected in the iSteelAsia Group's net assets value and dealt with in the investment revaluation reserve of the Group's balance sheet in the prior years. As at 31st March 2004, the Group had taken a conservative approach to transfer the deficit from the investment revaluation reserve to the profit and loss account and recognised an impairment loss of the investment in AAM of approximately HK\$20,414,000.

Treating it as a long-term investment, the management has and will continue to closely monitor AAM's performance. Nevertheless, from an operational side, the Directors believe that the acquisition is beneficial to forming a strategic relationship with a player of good connection in the region.

Foreign currency exposure

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

Number of employees, remuneration policies and share option scheme

As at 31st March 2004, the iSteelAsia Group employed 80 (2003: 83) staff. Salaries and annual bonuses are determined according to positions and performance of the employees. The iSteelAsia Group provides on-the-job training and training subsidies to its employees in addition to pension schemes and medical insurance. Total staff costs including contribution to retirement benefit schemes incurred during the year under review amounted to approximately HK\$15,232,000 (2003: HK\$14,870,000).

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31st March 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 throughout the year under review, except that the non-executive Directors are not appointed for a specific term. However, the non-executive Directors are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company’s Bye-laws.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 11th August 2004 to Friday, 13th August 2004, both days inclusive, during which period no transfer of shares will be effected. All transfer document accompanied by the relevant share certificates must be lodged with the Company’s Registrar, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Tuesday, 10th August 2004.

On behalf of the Board of Directors
Desmond Hay Ching Fu
Director & CEO

Hong Kong, 23rd June 2004

The Directors as at the date of this announcement are:

Executive Directors: Andrew Cho Fai Yao (*Chairman*); Miriam Che Li Yao; Desmond Hay Ching Fu

Non-executive Director: David Michael Faktor

Independent non-executive Directors: Philip King Huen Ma; Kennedy Ying Ho Wong

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