

**iSteelAsia Holdings Limited**

亞鋼集團有限公司\*



**2004/05** 中期業績報告  
Interim Report

## INTERIM REPORT FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 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.**

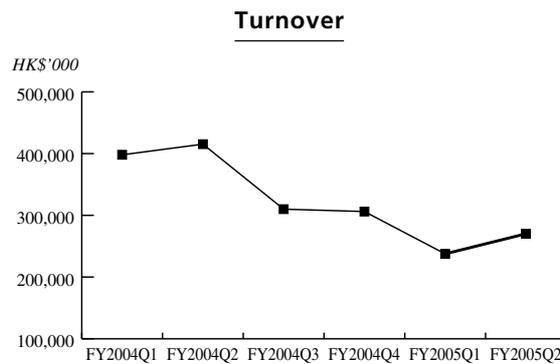
*The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.*

*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

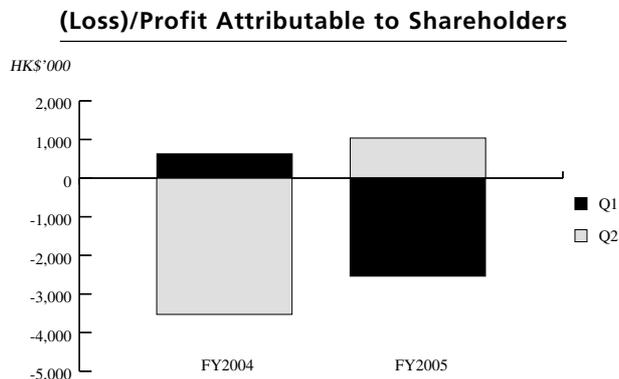
### Turnover

For the six months ended 30th September 2004, the iSteelAsia Group recorded a 57% reduction in loss attributable to shareholders from approximately HK\$3.5 million to HK\$1.5 million despite a 38% decrease in turnover from approximately HK\$813 million to HK\$508 million by comparing with the results in the corresponding period last year.



### (Loss)/profit attributable to shareholders

Despite the decrease in turnover, the gross margin for six months ended 30th September 2004 increased 32% to approximately 3% by comparing the gross margin for the same period of last year. In addition, the Group achieved an operating profit before finance costs of approximately HK\$1,082,000 for the six months ended 30th September 2004. It represents an increase of 201% by comparing the results in the same period last year. Furthermore, although the Group recorded a net loss attributable to shareholders of approximately HK\$1,500,000, it is definitely showing about 57% improvement from the results in the corresponding period last year. Its most recent results for the 3 months ended 30th September 2004 had been a turnaround from the previous loss position, with profit attributable to shareholders of approximately HK\$1,036,000.



## RESULTS

The followings are the unaudited consolidated results of iSteelAsia Holdings Limited (the "Company" or "iSteelAsia") and its subsidiaries (collectively the "Group" or "iSteelAsia Group") for the six months and three months ended 30th September 2004 together with the comparative unaudited figures for the corresponding periods in 2003:

### CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	For the six months ended 30th September		For the three months ended 30th September	
		2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
Turnover	3				
— Sales		505,202	804,810	268,914	409,275
— Commission		2,446	8,516	1,147	6,016
Cost of sales		(492,784)	(795,285)	(260,309)	(407,682)
Gross profit		14,864	18,041	9,752	7,609
Other revenue		676	526	123	141
Selling and distribution expenses		(4,876)	(3,493)	(2,602)	(2,004)
General and administration expenses		(9,582)	(14,715)	(4,979)	(7,551)
Operating profit /(loss)		1,082	359	2,294	(1,805)
Finance costs		(2,622)	(4,183)	(1,282)	(2,155)
(Loss)/Profit before taxation		(1,540)	(3,824)	1,012	(3,960)
Taxation	4	46	(295)	3	(280)
(Loss)/Profit after taxation but before minority interests		(1,494)	(4,119)	1,015	(4,240)
Minority interests		(6)	593	21	89
(Loss)/Profit attributable to shareholders		(1,500)	(3,526)	1,036	(4,151)
(Loss)/Earnings per share	5				
— Basic		HK(0.09) cents	HK(0.23) cents	HK0.06 cents	HK(0.27) cents

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	As at 30th September 2004 HK\$'000 (Unaudited)	As at 31st March 2004 HK\$'000 (Audited)
<b>Non-current assets</b>			
Fixed assets	7	2,353	2,922
Website development costs	7	31	43
Long-term investment		3,464	2,136
Deferred tax assets		4,483	4,483
Total non-current assets		<u>10,331</u>	<u>9,584</u>
<b>Current assets</b>			
Short-term investment		23,400	23,400
Inventories		141,620	131,082
Deposits for purchase of inventories		72,637	89,321
Prepayments and deposits		17,196	12,735
Accounts and bills receivable	8	27,869	31,193
Pledged bank deposits		16,149	34,439
Cash and other bank deposits		38,689	55,433
Total current assets		<u>337,560</u>	<u>377,603</u>
<b>Current liabilities</b>			
Short-term bank borrowings		(38,309)	(51,426)
Accounts and bills payable	9	(245,688)	(284,445)
Other payables		(1,984)	(517)
Accruals		(4,377)	(2,082)
Receipts in advance		(40,650)	(30,065)
Taxation payable		(5,183)	(6,007)
Total current liabilities		<u>(336,191)</u>	<u>(374,542)</u>
Net current assets		<u>1,369</u>	<u>3,061</u>
Net assets		<u>11,700</u>	<u>12,645</u>
Representing:			
<b>Share capital</b>		159,639	159,638
<b>Reserves</b>		(147,945)	(146,993)
Shareholders' equity		<u>11,694</u>	<u>12,645</u>
<b>Minority interests</b>		6	—
		<u>11,700</u>	<u>12,645</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	<b>Share capital</b>	<b>Share premium</b>	<b>Capital reserve</b>	<b>Asset revaluation reserve</b>	<b>Cumulative translation adjustments</b>	<b>Accumulated losses</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Balance, 1st April 2003	156,450	11,099	2,700	(21,865)	153	(135,186)	13,351
Loss attributable to shareholders	—	—	—	—	—	(3,526)	(3,526)
Translation adjustments	—	—	—	—	4	—	4
Change in fair value of a long-term investment	—	—	—	514	—	—	514
Issuance of shares upon exercise of warrants	68	—	—	—	—	—	68
Balance, 30th September 2003	156,518	11,099	2,700	(21,351)	157	(138,712)	10,411
Loss attributable to shareholders	—	—	—	—	—	(22,185)	(22,185)
Translation adjustments	—	—	—	—	(52)	—	(52)
Change in fair value of a long-term investment	—	—	—	937	—	—	937
Issuance of shares under a subscription agreement	3,120	—	—	—	—	—	3,120
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)	12,645
Loss attributable to shareholders	—	—	—	—	—	(1,500)	(1,500)
Change in fair value of a long-term investment	—	—	—	548	—	—	548
Issuance of shares upon exercise of warrants	1	—	—	—	—	—	1
Balance, 30th September 2004	<u>159,639</u>	<u>11,099</u>	<u>2,700</u>	<u>548</u>	<u>105</u>	<u>(162,397)</u>	<u>11,694</u>

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	<b>For the six months ended 30th September</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Net cash (used in)/generated from operating activities	<b>(21,106)</b>	41,160
Net cash used in investing activities	<b>(812)</b>	(880)
Net cash generated from/(used in) financing activities	<b>5,174</b>	(2,455)
Net (decrease)/increase in cash and cash equivalents	<b>(16,744)</b>	37,825
Cash and cash equivalents at 1st April	<b>55,433</b>	49,240
Cash and cash equivalents at 30th September	<b>38,689</b>	87,065

Notes:

**1. Basis of preparation**

The 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. Basis of consolidation**

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

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

### 3. 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.

The primary segment is defined by major product and operational unit, while the secondary segment is defined by geographical locations.

#### 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 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. An analysis by business segments is as follows:

	For the six months ended 30th September							
	Steel trading		Procurement services		Investment holding		Total	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Turnover — Sales to external customers	<u>505,580</u>	<u>808,490</u>	<u>2,068</u>	<u>4,836</u>	<u>—</u>	<u>—</u>	<u>507,648</u>	<u>813,326</u>
Segment results	<u>544</u>	<u>(1,009)</u>	<u>58</u>	<u>1,350</u>	<u>(27)</u>	<u>(26)</u>	<u>575</u>	<u>315</u>
Other revenue	325	264	—	—	351	262	676	526
Unallocated corporate expenses							(169)	(482)
Operating profit							1,082	359
Finance costs							(2,622)	(4,183)
Taxation							46	(295)
Minority interests							(6)	593
Loss attributable to shareholders							<u>(1,500)</u>	<u>(3,526)</u>
Capital expenditures	<u>146</u>	<u>978</u>	<u>2</u>	<u>10</u>	<u>780</u>	<u>—</u>	<u>928</u>	<u>988</u>
Depreciation and amortisation	<u>548</u>	<u>533</u>	<u>14</u>	<u>600</u>	<u>—</u>	<u>—</u>	<u>562</u>	<u>1,133</u>
Significant non-cash expenditures (other than depreciation and amortisation)	<u>52</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>52</u>	<u>—</u>

b. *Secondary segment*

The Group's activities are conducted predominantly in Hong Kong and Mainland China. Turnover by geographical segments is determined on the basis of the destination of shipment of merchandise, location of service performed for procurement services and location of sellers for online commission income. An analysis by geographical segment is as follows:

	For the six months ended 30th September							
	Hong Kong		Mainland China		Others		Total	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Turnover — Sales to external customers	<u>11,585</u>	<u>12,577</u>	<u>496,063</u>	<u>800,749</u>	<u>—</u>	<u>—</u>	<u>507,648</u>	<u>813,326</u>
Segment results	<u>(371)</u>	<u>(153)</u>	<u>3,210</u>	<u>3,981</u>	<u>(1,588)</u>	<u>(2,987)</u>	<u>1,251</u>	<u>841</u>
Unallocated corporate expenses							<u>(169)</u>	<u>(482)</u>
Operating profit							<u>1,082</u>	<u>359</u>
Capital expenditures	<u>37</u>	<u>256</u>	<u>889</u>	<u>722</u>	<u>2</u>	<u>10</u>	<u>928</u>	<u>988</u>

#### 4. Taxation

Taxation consisted of:

	For the six months ended 30th September		For the three months ended 30th September	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
	Mainland China enterprise income tax			
— Current taxation	<u>433</u>	<u>295</u>	<u>297</u>	<u>280</u>
— Tax refund	<u>(479)</u>	<u>—</u>	<u>(300)</u>	<u>—</u>
	<u>(46)</u>	<u>295</u>	<u>(3)</u>	<u>280</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 six months and three months ended 30th September 2004 (2003: Nil). Subsidiaries established in Mainland China are subject to Mainland China enterprise income tax at the rates ranging from 15% to 33% (2003: 15% to 33%).

## 5. (Loss)/Earnings per share

The calculations of basic (loss)/earnings per share for the six months and three months ended 30th September 2004 were based on the unaudited consolidated loss attributable to shareholders of approximately HK\$1,500,000 (2003: HK\$3,526,000) and profit of approximately HK\$1,036,000 (2003: loss of HK\$4,151,000) respectively and on the weighted average number of 1,596,389,292 (2003: 1,564,679,987) shares and 1,596,390,146 (2003: 1,564,855,051) shares in issue during the six months and three months ended 30th September 2004 respectively.

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

## 6. Dividends

The Directors do not recommend the payment of an interim dividend for the six months ended 30th September 2004.

## 7. Fixed assets and website development costs

	<b>Fixed assets</b> <i>HK\$'000</i> (Unaudited)	<b>Website development costs</b> <i>HK\$'000</i> (Unaudited)
Opening net book amount as at 1st April 2004	2,922	43
Other additions	146	2
Disposals	(167)	—
Depreciation/amortisation charge ( <i>Note 3a</i> )	(548)	(14)
	<u>2,353</u>	<u>31</u>
Closing net book amount as at 30th September 2004	<u>2,353</u>	<u>31</u>

## 8. Accounts and bills receivable

Accounts and bills receivable (consolidated) consisted of:

	<b>As at 30th September 2004 HK\$'000 (Unaudited)</b>	<b>As at 31st March 2004 HK\$'000 (Audited)</b>
Accounts and bills receivable	<b>28,420</b>	31,744
Less: Provision for bad and doubtful receivable	<b>(551)</b>	(551)
	<u><b>27,869</b></u>	<u>31,193</u>

In giving credit to selected customers, the Group normally grants such customers credit periods ranging from 30 days to 90 days. Ageing analysis of accounts and bills receivable (consolidated) is as follows:

	<b>As at 30th September 2004 HK\$'000 (Unaudited)</b>	As at 31st March 2004 HK\$'000 (Audited)
0 to 90 days	<b>26,282</b>	29,869
91 to 180 days	<b>251</b>	1,376
181 to 270 days	<b>484</b>	497
271 to 365 days	<b>925</b>	—
1 to 2 years	<b>478</b>	2
	<b><u>28,420</u></b>	<b><u>31,744</u></b>

## 9. Accounts and bills payable

Ageing analysis of accounts and bills payable (consolidated) is as follows:

	<b>As at 30th September 2004 HK\$'000 (Unaudited)</b>	As at 31st March 2004 HK\$'000 (Audited)
0 to 90 days	<b>162,224</b>	86,032
91 to 180 days	<b>60,291</b>	36,927
181 to 270 days	<b>16,869</b>	56,354
271 to 365 days	<b>6,304</b>	61,534
1 to 2 years	—	43,598
	<b><u>245,688</u></b>	<b><u>284,445</u></b>

## 10. Related party transactions

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

Name of related party/Nature of transaction	For the six months ended 30th September	
	2004 HK\$'000	2003 HK\$'000
Van Shung Chong Hong Limited (i)		
— Purchases made by the Group	264,341	105,591
— Commission from procurement services earned by the Group	1,360	1,079
— Interest charged to the Group	1,655	2,881
— Administrative fees charged to the Group	180	180
CFY Enterprises Limited (i)		
— Rental expenses charged to the Group	81	117
— Rates, management fees and utilities charged to the Group	49	45

Note:

- (i) Van Shung Chong Hong Limited and CFY Enterprises Limited are wholly owned and controlled by Van Shung Chong (B.V.I.) Limited, a substantial shareholder of the Company.

## BUSINESS REVIEW

### Financial and Business Performance

The board of Directors (the "Board") is pleased to report the iSteelAsia Group's interim results for the financial year ending 31st March 2005. For the six months ended 30th September 2004, the iSteelAsia Group recorded a 57% reduction in loss attributable to shareholders from approximately HK\$3.5 million to HK\$1.5 million despite a 38% decrease in turnover from approximately HK\$813 million to HK\$508 million by comparing with the results in the corresponding period last year.

As mentioned in our first quarterly report dated 13th August 2004, the decrease in turnover was mainly due to the Central Government's continuous deployment of a package of macro-entrenchment policies to limit the excessive investments in several overheated industries including the steel, aluminium, automobile and cement industries as well as real estate development sector. At present, China's macro-retrenchment policies had affected the pace of

expansion of the low-end segment of the steel industry. Such an influence has however a certain time-lagged nature and the impacts on the business developments of the Group and on the environment it operates were still yet to be observed in a longer time span. Nevertheless, the management had against such tough background implemented substantial efforts in allocation of its limited resources to selected products that could have brought into greater return to shareholders. This could be evidenced from the fact that, despite the decrease in turnover, the gross margin for six months ended 30th September 2004 increased 32% to approximately 3% by comparing the gross margin for the same period of last year. In addition, the Group achieved an operating profit before finance costs of approximately HK\$1,082,000 for the six months ended 30th September 2004. It represents an increase of 201% by comparing the results in the same period last year. Furthermore, although the Group recorded a net loss attributable to shareholders of approximately HK\$1,500,000, it is definitely showing about 57% improvement from the results in the corresponding period last year. Its most recent results for the 3 months ended 30th September 2004 had been a turnaround from the previous loss position, with profit attributable to shareholders of approximately HK\$1,036,000.

Meanwhile, iSteelAsia has strategically focused its sales distribution network to cover the major cities which are the most densely populated cities like Beijing, Shanghai, Guangzhou, Tianjin, Shenzhen and Chongqing. Recently, coupled with the successful establishment of its strengthening the depth of its distribution network into the second tier cities such as Wuxi (supplementing Shanghai) and Shunde (supplementing Shenzhen and Guangzhou), iSteelAsia reaches the highest average annual income per capita cities in China. These factors translate 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 six months ended 30th September 2004, total cost excluding cost of inventories sold and finance costs ("Operating Cost") was approximately HK\$14,458,000, representing a decrease of over 20% over the same period in last year. Using turnover as a base factor, Operating Cost to turnover ratio had decreased substantially since 2001. The ratio has decreased from 72.1% in early 2001 and stabilised within the range from 2% to 3% 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. Further analysis of the Operating Cost indicates that the savings in general and administrative expenses have outweighed the increases in selling and distribution expenses. The decrease in general and administrative expenses was mainly due to resources realignment to products that yield a higher return which resulted in some unnecessary administrative costs being eliminated. Thus, the total general and administrative expenses for the six months ended 30th September 2004 decreased by 35% to approximately HK\$9,582,000 comparing the expenses incurred for the corresponding period last year. In other aspect, selling and distribution expenses increased 40% to approximately HK\$4,876,000 against that for the same period last year. Such increase was led by the substantial increases in global storage and freight charges occurred in the past 12 months although there were savings generated from decrease in the turnover being handled.

## Financial Resources, Liquidity and Charges on Assets

As at 30th September 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\$38,309,000 (At 31st March 2004: HK\$51,426,000). The short-term working capital bank loans amounted to HK\$24,570,000 (At 31st March 2004: HK\$24,570,000) with interest rates from 5.3% to 5.4% per annum (At 31st March 2004: 4.5% to 5.4% per annum). As at 30th September 2004, the gearing ratio (short-term bank borrowings divided by shareholders' equity) was approximately 3.28 times (At 31st March 2004: 4.07 times). As at 30th September 2004, the iSteelAsia Group had aggregate banking facilities of approximately HK\$140,820,000 (At 31st March 2004: HK\$159,155,000) from several banks for overdrafts, loans, standby letter of credit and trade financing. Unused facilities as at the same date amounted to approximately HK\$92,169,000 (At 31st March 2004: HK\$69,691,000). These facilities were secured by (a) corporate guarantees provided by iSteelAsia and/or (b) the iSteelAsia Group's inventories held under trust receipts bank loan arrangement and/or (c) pledged cash of approximately HK\$16,149,000 (At 31st March 2004: HK\$34,439,000).

## Foreign Currency Exposure

The iSteelAsia Group's businesses were primarily transacted in Hong Kong dollar, United States ("US") dollar and Renminbi ("RMB"). The iSteelAsia Group's cash and bank deposits, including pledged bank deposit, were mainly denominated in Hong Kong dollar, US dollar and RMB. The foreign currency exposure of the iSteelAsia Group is mainly driven by its business operations. The sales receipts are predominately collected in RMB and US dollar. On the other hand, the steel products purchases are mainly denominated in US dollar. The iSteelAsia Group will monitor closely the exchange rate between US dollar and RMB and will make necessary hedging arrangements to mitigate the risk arising from foreign currency fluctuation.

## Employee Information

As at 30th September 2004, the iSteelAsia Group employed 57 (2003: 95) staff. Total staff costs including contribution to retirement benefit schemes incurred during the six months ended 30th September 2004 amounted to approximately HK\$4,402,000 (2003: HK\$8,064,000).

## CONTINGENT LIABILITIES

As at 30th September 2004, the Group provided guarantees of approximately HK\$62,370,000 to banks in respect of the banking facilities granted to its subsidiaries.

## COMMITMENTS

There was no material change in commitments since 31st March 2004.

## OUTLOOK

Encouraged by the improving results of the second quarter, the management is optimistic about the future of the iSteelAsia Group although there might still be short-term adverse impact upon our performance, which was mainly due to the continuous macro-control measures exerted by the Central Government in the PRC. We expect steel demand growth might slow to 10-15% per annum due to the macro-control measures together with the recent increase in interest rate, the beginning of monetary tightening, in China may slow down investments. 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.

In the 4Q2004 & 1Q2005, the prices will be expected to show fluctuations amid overall stability. These could be led by following factors: first, effective demand for rolled steel will remain brisk as the Central Government suppresses some overheated sectors but with annual economic growth expected at more than 9%; second, the cost factor has touched bottom; and third, demand for rolled steel has been strong in the international market, with prices much higher than PRC.

According to the latest statistics, China's crude steel production of September 2004 continued upward trend set in the past months, with total production of 23,758,100 tons, up 24.1% from the same period of last year. The year to date figures (from January to September) was set at about 194,151,000 tons, representing an increase of 21.6%. Such data is still showing that there is impressive year-on-year growth in China.

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 continue to undertake rationalisation of its resources and corporate structure to achieve best operational efficiency and build a sound customers' base for future growth. Also, in light of the current volatility in the international commodity market (especially in oil), coupled with a rising trend for interest rate, the iSteelAsia Group will need to improve its balance sheet to put the Group in a much more sound financial position to take on these marco challenges. Moving forward the management will look into various means to achieve this.

On behalf of the Board, I would like to thank again our worldwide suppliers and customers for their trusts and support in our business throughout the years. I also wish to take this opportunity 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 30th September 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 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 30th September 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 30th September 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. 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 30th September 2004, VSC BVI owns 301,026,000 Shares and 60,205,200 Warrants and Huge Top owns approximately 47.13% 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 30th September 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. The interests of the Directors in the share options of the Company are separately disclosed in the section headed "Share Option Scheme" below.

For the six months ended 30th September 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 30th September 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 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 30th September 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	Number of options	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>—</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>—</u>	<u>563,859,120</u>	1 & 2

Name	Nature of interest	Number of Shares and approximate % of shareholding	Number of Warrants	Number of options	Aggregate interest	Notes
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>—</u>	<u>755,632,732</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	163,367,600 (10.23%)	39,260,320	—	202,627,920	
		<u>624,204,944 (39.10%)</u>	<u>131,427,788</u>	<u>—</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	
	— directly	— (—)	—	7,500,000	7,500,000	
		<u>624,204,944 (39.10%)</u>	<u>131,427,788</u>	<u>7,500,000</u>	<u>763,132,732</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 30th September 2004. VSC BVI directly owns 301,026,000 Shares and 60,205,200 Warrants as at 30th September 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 30th September 2004. Huge Top is beneficially interested in approximately 47.13% of the issued share capital of VSC as at 30th September 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 30th September 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 30th September 2004, Ms. Miriam Che Li Yao directly holds 7,500,000 share options of the Company under personal interests and is one of the two directors for TN Development and Huge Top. Ms. Miriam Che Li Yao is therefore directly and indirectly interested in an aggregate of 624,204,944 Shares, 131,427,788 Warrants and 7,500,000 share options of the Company.
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 30th September 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.

## SHARE OPTION SCHEME

Under the terms of the Company's share option scheme approved by the shareholders on 13th April 2000 (the "Old Scheme"), the Board may at their discretion, invite any full-time employees of the Company or any of the companies of the Group, including any executive Directors, to take up options to subscribe for Shares. The Old Scheme became

effective upon the listing of the Shares on 20th April 2000 and was terminated on 10th June 2002. 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.

Details of movement in the share options to subscribe for Shares granted to and held by certain Directors during the six months ended 30th September 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	Lapsed during the period '000	End of period '000
<b>Directors:—</b>							
Mr. Andrew Cho Fai Yao	7th November 2000	HK\$0.485	7th November 2000 to 7th November 2001	8th November 2001 to 12th April 2010	5,000	—	5,000
Mr. Desmond Hay Ching Fu	3rd July 2000	HK\$0.360	3rd July 2000 to 30th September 2001	1st October 2001 to 12th April 2010	250	—	250
	7th November 2000	HK\$0.485	7th November 2000 to 7th November 2001	8th November 2001 to 12th April 2010	11,500	—	11,500
Sub-total					16,750	—	16,750
<b>Employees:—</b>							
In aggregate	3rd July 2000	HK\$0.360	3rd July 2000 to 30th September 2001	1st October 2001 to 12th April 2010	15,100	—	15,100
In aggregate	7th November 2000	HK\$0.485	7th November 2000 to 7th November 2001	8th November 2001 to 12th April 2010	28,900	—	28,900
Sub-total					44,000	—	44,000
<b>Others:—</b>							
In aggregate	3rd July 2000	HK\$0.360	3rd July 2000 to 30th September 2001	1st October 2001 to 12th April 2010	4,500	(2,000)	2,500
In aggregate	7th November 2000	HK\$0.485	7th November 2000 to 7th November 2001	8th November 2001 to 12th April 2010	10,000	(5,000)	5,000
Sub-total					14,500	(7,000)	7,500
Total of Old Scheme					75,250	(7,000)	68,250

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. 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.

## COMPETING INTERESTS

Mr. David Michael Faktor ("Mr. Faktor"), a non-executive Director of the Company, is the director of Stemcor Holdings Limited ("Stemcor") whose business is principally engaged in international steel trading. As at 30th September 2004, Mr. Faktor holds 185,000 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 30th September 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	47.13%
— Personal interest	100% (directly)	7,100,000	1.93%

### Notes:

- These shares are the ordinary shares of HK\$0.10 each in the issued share capital of VSC.
- As at 30th September 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 six months ended 30th September 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 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 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 six months ended 30th September 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, 12th November 2004

*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).*

