

iSteelAsia Holdings Limited

亞鋼集團有限公司*



iSteelAsia

2003/04 中期業績報告
Interim Report

INTERIM REPORT FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2003

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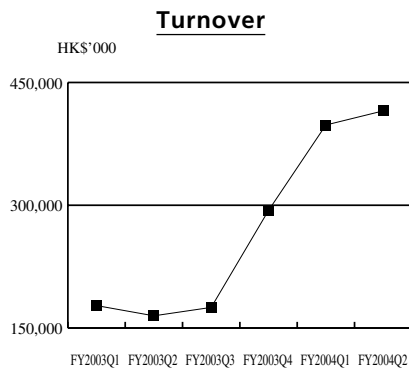
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This report, for which the directors of iSteelAsia Holdings Limited ("the Directors") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth 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

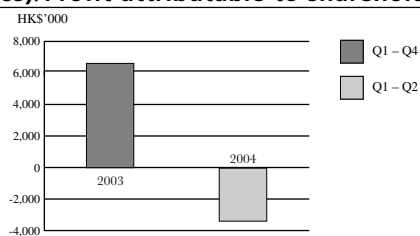
For the half year, sales revenue already exceeded last annual turnover, with an increase of 138% to approximately HK\$813 million for the six months ended 30th September 2003 by comparing the results in the same period last year.



(Loss)/Profit attributable to shareholders

The iSteelAsia Group only achieved an operating profit before finance cost of approximately HK\$359,000 for the six months ended 30th September 2003. This represents a decrease of 97% by comparing the results in the same period last year. As such, the Group recorded a net loss attributable to shareholders of approximately HK\$3,526,000 against a profit attributable to shareholders of approximately HK\$6,783,000 for the six months ended 30th September 2002. The erosion of operating profit was mainly due to the outbreak of SARS in the areas of Beijing and Tianjin.

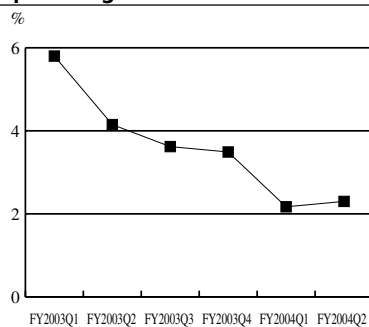
(Loss)/Profit attributable to shareholders



Operating Cost

Operating Cost to turnover ratio had decreased from 5.80% in early 2002 and stabilised at around 2%, reflecting the Group's successful efforts in optimising its resources for economy of scale to achieve business growth.

Operating Cost to turnover ratio



RESULTS

The Board of Directors of iSteelAsia Holdings Limited (“the Company” or “iSteelAsia”) has the pleasure of presenting the unaudited consolidated financial statements of the Company and its subsidiaries (together “the Group” or “iSteelAsia Group”) for the six months and three months ended 30th September 2003 together with the comparative unaudited figures for the corresponding periods in 2002, as follows:

Condensed Consolidated Income Statement

	Note	For the six months ended 30th September		For the three months ended 30th September	
		2003 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)
Turnover	3				
— Sales		804,810	335,359	409,275	162,716
— Commission		8,516	6,941	6,016	2,179
Cost of Sales		(795,285)	(315,306)	(407,682)	(152,462)
Gross profit		18,041	26,994	7,609	12,433
Other revenue		526	850	141	404
Selling and distribution expenses		(3,493)	(2,262)	(2,004)	(358)
General and administration expenses		(14,715)	(14,189)	(7,551)	(6,139)
Impairment loss of an investment		—	(688)	—	(344)
Operating profit/(loss)		359	10,705	(1,805)	5,996
Finance costs		(4,183)	(2,867)	(2,155)	(1,587)
(Loss)/Profit before taxation		(3,824)	7,838	(3,960)	4,409
Taxation	4	(295)	(588)	(280)	(581)
(Loss)/Profit after taxation but before minority interests		(4,119)	7,250	(4,240)	3,828
Minority interests		593	(467)	89	(314)
(Loss)/Profit attributable to shareholders		(3,526)	6,783	(4,151)	3,514
(Loss)/Earnings per share	5				
— Basic		(0.23) cents	0.43 cents	(0.27) cents	0.22 cents
— Diluted		N/A	0.43 cents	N/A	0.22 cents

Condensed Consolidated Balance Sheet

	Note	As at 30th September 2003 HK\$'000 (Unaudited)	As at 31st March 2003 HK\$'000 (Audited)
Non-current assets			
Furniture and equipment		3,458	3,230
Website development costs		328	918
Long-term investment		1,199	685
Total non-current assets		<u>4,985</u>	<u>4,833</u>
Current assets			
Short-term investment		23,400	23,400
Inventories		156,747	155,229
Prepayments and deposits		25,019	19,359
Deposits for purchase of inventories		70,792	49,232
Accounts and bills receivable	7	62,039	37,425
Pledged bank deposits		13,554	—
Cash and other bank deposits		87,065	49,240
Total current assets		<u>438,616</u>	<u>333,885</u>
Current liabilities			
Short-term bank borrowings		(68,165)	(57,134)
Accounts and bills payable	8	(335,876)	(232,003)
Other payables		(3,780)	(3,618)
Accruals		(2,107)	(1,872)
Receipts in advance		(21,719)	(28,391)
Taxation payable		(802)	(1,015)
Total current liabilities		<u>(432,449)</u>	<u>(324,033)</u>
Net current assets		<u>6,167</u>	<u>9,852</u>
Total assets less current liabilities		11,152	14,685
Minority interests			
Net assets		<u>10,411</u>	<u>13,351</u>
Representing:			
Share capital		156,518	156,450
Reserves		<u>(146,107)</u>	<u>(143,099)</u>
Shareholders' equity		<u>10,411</u>	<u>13,351</u>

Unaudited Condensed Consolidated Statement of Changes in Equity

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Asset revaluation reserve <i>HK\$'000</i>	Cumulative translation adjustment <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance, 1st April 2002	156,450	11,099	2,700	(18,552)	145	(141,776)	10,066
Net profit for the period	—	—	—	—	—	6,783	6,783
Change in fair value of a long-term investment	—	—	—	(3,598)	—	—	(3,598)
Balance, 30th September 2002	156,450	11,099	2,700	(22,150)	145	(134,993)	13,251
Net loss for the period	—	—	—	—	—	(193)	(193)
Translation adjustments	—	—	—	—	8	—	8
Change in fair value of a long-term investment	—	—	—	285	—	—	285
Balance, 31st March 2003	156,450	11,099	2,700	(21,865)	153	(135,186)	13,351
Net loss for the period	—	—	—	—	—	(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	<u>156,518</u>	<u>11,099</u>	<u>2,700</u>	<u>(21,351)</u>	<u>157</u>	<u>(138,712)</u>	<u>10,411</u>

Unaudited Condensed Consolidated Cash Flow Statement

	For the six months ended 30th September	
	2003 HK\$'000	2002 HK\$'000
Net cash generated from operating activities	41,160	30,802
Net cash used in investing activities	(880)	(233)
Net cash used in financing activities	(2,455)	(17,203)
Net increase in cash and cash equivalents	37,825	13,366
Cash and cash equivalents at 1st April, representing cash and other bank deposits	49,240	49,058
Cash and cash equivalents at 30th September, representing cash and other bank deposits	87,065	62,424

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) represents a change in accounting policy, which has been applied retrospectively so that the comparatives figures presented have been restated to conform to the changed policy. The adoption of the SSAP12 (revised) has no significant effect on the Group's results for the current or prior accounting periods.

2. Principles of consolidation

The unaudited consolidated financial statements include the accounts of the iSteelAsia Group. Results of subsidiaries acquired or disposed of during the period are included in the unaudited consolidated financial statements from or to their effective dates of acquisition or disposal. Significant intra-group transactions and balances have been 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 iSteelAsia 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	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover								
Sales to external customers	808,490	335,359	4,836	6,941	—	—	813,326	342,300
Segment result	(1,009)	15,509	1,350	(4,604)	(26)	(27)	315	10,878
Other revenue	264	539	—	—	262	311	526	850
Impairment loss of an investment	—	—	—	—	—	(688)	—	(688)
Unallocated corporate expenses							(482)	(335)
Operating profit							359	10,705
Finance cost							(4,183)	(2,867)
Taxation							(295)	(588)
Minority interests							593	(467)
(Loss)/Profit attributable to shareholders							(3,526)	6,783
Capital expenditures — Segment capital expenditures	978	1,084	10	31	—	—	988	1,115
Depreciation and amortisation — Segment depreciation and amortisation	533	261	600	791	—	—	1,133	1,052
Significant non-cash expenditures — Segment non-cash expenditures (other than depreciation and amortisation)	—	—	—	—	—	688	—	688

b. *Secondary segment*

The iSteelAsia 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	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	12,577	50,251	800,749	291,967	—	82	813,326	342,300
Segment result	(153)	(4,047)	3,981	20,314	(2,987)	(5,227)	841	11,040
Unallocated corporate expenses							(482)	(335)
Operating profit							359	10,705
Capital expenditures	256	68	722	1,033	10	14	988	1,115

4. **Taxation**

Taxation consisted of:

	For the six months ended 30th September		For the three months ended 30th September	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mainland China enterprise income tax	295	588	280	581

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 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%).

5. **(Loss)/Earnings per share**

The calculations of basic (loss)/earnings per share for the six months and three months ended 30th September 2003 were based on the unaudited consolidated loss attributable to shareholders of approximately HK\$3,526,000 (2002: profit of HK\$6,783,000) and HK\$4,151,000 (2002: profit of HK\$3,514,000) respectively and on the weighted average number of 1,564,679,987 (2002: 1,564,500,000) shares and 1,564,855,051 (2002: 1,564,500,000) shares in issue during the six months and three months ended 30th September 2003 respectively.

No diluted loss per share for the six months and three months ended 30th September 2003 is presented as the outstanding warrants and employee share options were anti-dilutive. The calculations of diluted earnings per share for the six months and three months ended 30th September 2002 were based on the unaudited consolidated profit attributable to shareholders of approximately HK\$6,783,000 and HK\$3,514,000 respectively and on the weighted average number of 1,594,422,131 and 1,616,650,000 shares, being the weighted average number of shares outstanding during the periods respectively, adjusted for the efforts of all dilutive potential shares of 29,922,131 and 52,150,000 shares in respect of outstanding warrants respectively.

6. Dividends

The Directors do not recommend the payment of an interim dividend for the six months ended 30th September 2003.

7. Accounts and bills receivable

Accounts and bills receivable (consolidated) consisted of:

	As at 30th September 2003 HK\$'000 (Unaudited)	As at 31st March 2003 HK\$'000 (Audited)
Accounts and bills receivable	62,396	37,782
Less: Provision for bad and doubtful receivable	(357)	(357)
	<u>62,039</u>	<u>37,425</u>

In giving credit to selected customers, the iSteelAsia 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:

	As at 30th September 2003 HK\$'000 (Unaudited)	As at 31st March 2003 HK\$'000 (Audited)
1 to 90 days	59,467	35,393
91 to 180 days	1,992	1,883
over 180 days	937	506
	<u>62,396</u>	<u>37,782</u>

8. Accounts and bills payable

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

	As at 30th September 2003 HK\$'000 (Unaudited)	As at 31st March 2003 HK\$'000 (Audited)
1 to 90 days	177,081	126,888
91 to 180 days	60,726	67,157
over 180 days	98,069	37,958
	<u>335,876</u>	<u>232,003</u>

9. 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	
	2003 HK\$'000	2002 HK\$'000
Van Shung Chong Hong Limited (i)		
— Purchases made by the iSteelAsia Group	105,591	113,818
— Commission from procurement services earned by the iSteelAsia Group	1,079	1,117
— Interest charged to the iSteelAsia Group	2,881	2,073
— Administrative fees charged to the iSteelAsia Group	180	180
CFY Enterprises Limited (i)		
— Rental expenses charged to the iSteelAsia Group	117	300
— Rates, management fees and utilities charged to the iSteelAsia Group	45	44
	<u>45</u>	<u>44</u>

Notes:

- (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.

10. Comparative figures

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

BUSINESS REVIEW

Financial and Business Performance

The iSteelAsia Group continued its trend of business growth in its first half of fiscal year 2003/04. For the half year, sales revenue already exceeded last annual turnover, with an increase of 138% to approximately HK\$813 million for the six months ended 30th September 2003 by comparing with the results in the same period last year. This increase is attributable to the strong demands 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 only achieved an operating profit before finance cost of approximately HK\$359,000 for the six months ended 30th September 2003. This represents a decrease of 97% by comparing the results in the same period last year. As such, the Group recorded a net loss attributable to shareholders of approximately HK\$3,526,000 against a profit attributable to shareholders of approximately HK\$6,783,000 for the six months ended 30th September 2002. This result is disappointing, and the management had made efforts to investigate the cause. During the period under review, the operating environments, especially in Beijing and Tianjin were severely affected by the 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 induced an inventory stock-up as customers were refraining from doing business. Although numerous efforts were used to try to get the customers to honour their contracts, the results were disappointing. The Beijing and Tianjing offices, operate as distributor which sell to the local trading houses instead of "end users" or manufacturers. As such, the customers' demands of these two offices were highly volatile and under the SARS epidemic period were dropped to a marginal level. As we have mentioned in our 1st quarter report dated 14th August 2003, this has eroded the gross margin of the Group to a great extent as we have to incur extra delivery costs in transporting inventories from these affected areas to other less severely affected or unaffected areas to maintain the inventory turnover rate and liquidity of the Group. 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. Inevitably, the temporary yet detrimental business environment for Beijing and Tianjin offices had so adversely impacted the Group that it dragged the whole Group's profitability down. As a lesson learnt, the SARS situation had taught the management a valuable lesson in customers' selection and product and geographical diversification. The Group is currently undergoing an evaluation of its customers' base and resources allocation to upgrade the Group's responsiveness to adverse scenarios like the SARS.

Since 2002, iSteelAsia has strategically expanded its sales distribution network to cover the most densely populated cities like Beijing, Shanghai, Guangzhou, Tianjin, Shenzhen and Chongqing. These cities are well developed with the highest average annual income per capita in China. These factors translate into high demands for household appliances, 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 tap these market opportunities and increase the return to its shareholders in the long run. Although the results in the last six months were less than encouraging, the management believes that the impact was temporary in nature, and with major developments expected for the next few years, the Group will have the infrastructure in place to capitalise on these opportunities and benefit accordingly.

For the six months ended 30th September 2003, total cost excluding cost of inventories sold and finance cost ("Operating Cost") was approximately HK\$18,208,000, representing an increase of 6% over the same period in last year. The increase was mainly due to extra inventory handling costs incurred by the Beijing and Tianjin offices 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 5.80% in early 2002 and stabilised at around 2%, reflecting the Group's successful efforts in optimising its resources for economy of scale to achieve business growth.

Financial Resources, Liquidity and Charges on Assets

As at 30th September 2003, the iSteelAsia Group's aggregate short-term bank borrowings, comprising trust receipts bank loans and short-term working capital bank loans, were approximately HK\$68,165,000 (At 31st March 2003: HK\$57,134,000). The short-term working capital bank loans amounted to HK\$23,672,000 (At 31st March 2003: HK\$18,947,000) with interest rates from 4.54% to 5.84% per annum (At 31st March 2003: 5.04% to 5.84% per annum). As at 30th September 2003, the gearing ratio (short-term bank borrowings divided by shareholders' equity) was approximately 6.55 times (At 31st March 2003: 4.28 times). As at 30th September 2003, the iSteelAsia Group had aggregate banking facilities of approximately HK\$202,490,000 (At 31st March 2003: HK\$122,540,000) from several banks for overdrafts, loans, standby letter of credit and trade financing. Unused facilities as at the same date amounted to approximately HK\$55,679,000 (At 31st March 2003: HK\$37,131,000). 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\$13,554,000 (At 31st March 2003: nil).

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 deposits, 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 2003, the iSteelAsia Group employed 95 (2002: 61) staff. Total staff costs including contribution to retirement benefit schemes incurred during the six months ended 30th September 2003 amounted to approximately HK\$8,064,000 (2002: HK\$6,905,000).

CONTINGENT LIABILITIES

As at 30th September 2003, the Company had provided guarantees of approximately HK\$181 million to banks in respect of the banking facilities granted to its subsidiaries.

COMMITMENTS

There was no material change in commitments since 31st March 2003.

OUTLOOK

Despite the results for the second quarter, the macro situation in the PRC have continuously supported the management's optimistic view about the future of the iSteelAsia Group as a major steel distributor in the PRC. The China steel market is becoming more and more important among the world steel markets. Based on published 2002's 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 September 2003 already reached approximately 160 million metric tones which was 21.64% higher than the figures in the past year. It is obvious that China has the potential.

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. For example, resources were mainly allocated to the other operating offices to continue their growth, while for Beijing and Tianjin offices, a prudent approach was taken to deplete their inventory level. This effort fuelled by the recovery of business in the two cities has helped the Group to be optimistic about the future opportunities in the Beijing and Tianjin area especially with the boom heading up to the 2008 Beijing Olympic.

On behalf of the Board of Directors, I would like to thank again our worldwide suppliers and customers for their trust and support in our products and services throughout the years. 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 diligence.

SUBSEQUENT EVENT

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 at the aggregate subscription price of HK\$3,120,000, representing a consideration of HK\$0.10 per subscription share. The subscription is effected to fully settle the entire outstanding amount of US\$400,000 (equivalent to HK\$3,120,000) currently due by the Company to Mckinsey HK.

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

As at 30th September 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)	165,175,600	(10.55%)	39,260,320	—	204,435,920
	— Corporate interest held by Huge Top (Note 4)	more than one-third (indirectly)	159,811,344	(10.21%)	31,962,268	—	191,773,612
	— Corporate interest held by VSC BVI (Note 5)	through Huge Top (indirectly)	301,026,000	(19.23%)	60,205,200	—	361,231,200
	— Corporate interest held by Right Action (Note 6)	100% (directly)	102,400,000	(6.55%)	20,480,000	—	122,880,000
	— Personal interest (Note 7)	100% (directly)	—	(—)	—	5,000,000	5,000,000
			<u>728,412,944</u>	<u>(46.54%)</u>	<u>151,907,788</u>	<u>5,000,000</u>	<u>885,320,732</u>

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)	165,175,600	(10.55%)	39,260,320	—	204,435,920
	— Corporate interest held by Huge Top (Note 4)	more than one-third (indirectly)	159,811,344	(10.21%)	31,962,268	—	191,773,612
	— Corporate interest held by VSC BVI (Note 5)	through Huge Top (indirectly)	301,026,000	(19.23%)	60,205,200	—	361,231,200
	— Personal interest (Note 7)	100% (directly)	—	(—)	—	7,500,000	7,500,000
			<u>626,012,944</u>	<u>(39.99%)</u>	<u>131,427,788</u>	<u>7,500,000</u>	<u>764,940,732</u>
Ms. Drina C. Yue	— Personal interest (Notes 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:

- These shares are the ordinary shares (“Shares”) of HK\$0.10 each in the issued share capital of the Company.
- 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 2003, TN Development Limited (“TN Development”) owns 165,175,600 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 30th September 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 30th September 2003, VSC BVI owns 301,026,000 Shares and 60,205,200 Warrants and Huge Top owns approximately 55.04% 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 30th September 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. The interests of the Directors in the share options of the Company are separately disclosed in the section headed “Share Option Scheme” below.
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 30th September 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 30th September 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 Rules 5.40 to 5.58 of the GEM Listing Rules.

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 30th September 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 (19.23%)	60,205,200	361,231,200	
	— indirect deemed interest through TN Development	165,175,600 (10.55%)	39,260,320	204,435,920	
		<u>466,201,600 (29.78%)</u>	<u>99,465,520</u>	<u>565,667,120</u>	1
VSC	— indirectly through VSC BVI	301,026,000 (19.23%)	60,205,200	361,231,200	
	— indirect deemed interest through TN Development	165,175,600 (10.55%)	39,260,320	204,435,920	
		<u>466,201,600 (29.78%)</u>	<u>99,465,520</u>	<u>565,667,120</u>	1 & 2

Name	Type of interest	Number of Shares and approximate % of shareholding	Number of Warrants	Aggregate interest	Notes
<i>Substantial shareholders of the Company</i>					
Huge Top	— directly	159,811,344 (10.21%)	31,962,268	191,773,612	
	— indirectly through VSC BVI	301,026,000 (19.23%)	60,205,200	361,231,200	
	— indirect deemed interest through TN Development	165,175,600 (10.55%)	39,260,320	204,435,920	
		<u>626,012,944 (39.99%)</u>	<u>131,427,788</u>	<u>757,440,732</u>	1, 2 & 3
Perfect Capital	— indirectly through Huge Top	159,811,344 (10.21%)	31,962,268	191,773,612	
	— indirectly through VSC BVI	301,026,000 (19.23%)	60,205,200	361,231,200	
	— indirect deemed interest through TN Development	165,175,600 (10.55%)	39,260,320	204,435,920	
		<u>626,012,944 (39.99%)</u>	<u>131,427,788</u>	<u>757,440,732</u>	1, 2 & 3
TN Development	— directly	165,175,600 (10.55%)	39,260,320	204,435,920	4
<i>Other shareholder of the Company</i>					
Right Action	— directly	102,400,000 (6.54%)	20,480,000	122,880,000	

Notes:

- VSC BVI owns 54% of the share capital of TN Development and is deemed to be interested in the 165,175,600 Shares and 39,260,320 Warrants held by TN Development as at 30th September 2003. VSC BVI directly owns 301,026,000 Shares and 60,205,200 Warrants as at 30th September 2003. VSC BVI is therefore directly and indirectly interested in an aggregate of 466,201,600 Shares and 99,465,520 Warrants.
- VSC owns the entire issued share capital of VSC BVI, VSC is therefore deemed to be interested in an aggregate of 466,201,600 Shares and 99,465,520 Warrants.

3. Perfect Capital owns more than one-third of the share capital of Huge Top as at 30th September 2003. Huge Top is beneficially interested in approximately 55.04% of the issued share capital of VSC as at 30th September 2003 and Perfect Capital and Huge Top are therefore deemed to be interested in the 165,175,600 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 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 626,012,944 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 30th September 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.

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 of Directors of the Company may at their discretion, invites 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 movement in the share options to subscribe for Shares granted to and held by certain Directors during the six months ended 30th September 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
Directors:—							
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
Sub-total					19,500	—	19,500
Employees:—							
In aggregate	3rd July 2000	HK\$0.360	3rd July 2000 to 30th September 2001	1st October 2001 to 12th April 2010	16,350	—	16,350
In aggregate	7th November 2000	HK\$0.485	7th November 2000 to 7th November 2001	8th November 2001 to 12th April 2010	56,150	—	56,150
Sub-total					72,500	—	72,500
Total of Old Scheme					92,000	—	92,000

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 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. 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 six months ended 30th September 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 six months ended 30th September 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, 14th November 2003

