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iSteelAsia

iSteelAsia Holdings Limited

(Incorporated in Bermuda with limited liability)

**Financial adviser to
iSteelAsia Holdings Limited**

CASH
Celestial Capital Limited

**DISCLOSEABLE TRANSACTION
SUBSCRIPTION OF SHARES IN THE COMPANY**

Summary

The Company, the Subscriber and McKinsey HK entered into the Subscription Agreement on 20 October 2003 in relation to the subscription by the Subscriber of 31,200,000 new Shares 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 about HK\$3,120,000) currently due by the Company to McKinsey HK.

The Subscription constitutes a discloseable transaction for the Company under Chapter 19 of the GEM Listing Rules. A circular containing information on the Subscription will be sent to the Shareholders (and for information only, the Warrantholders) as soon as practicable and in any event within 21 days from the date of this announcement.

THE SUBSCRIPTION

Subscription Agreement dated 20 October 2003

Parties:

Issuer: The Company.

Subscriber: AFAC Equity, L.P., a limited partnership incorporated in Delaware, the United States of America. The Subscriber is independent of and not connected with any of the Directors, chief executives, substantial shareholders or management shareholders of the Company or any of their respective associates. As at the date of the Subscription Agreement, the Subscriber held about 0.12% shareholding interest in the Company.

Other: McKinsey & Company, Inc. Hong Kong, a company incorporated in Delaware, the United States of America. McKinsey HK is independent of and not connected with any of the Directors, chief executives, substantial shareholders or management shareholders of the Company or any of their respective associates. As at the date of this announcement, the Group owed a total of US\$400,000 (equivalent to about HK\$3,120,000) to McKinsey HK, being the outstanding fees relating to the consultancy services provided by McKinsey HK to the Group since late 2000.

Both of the Subscriber and McKinsey HK are members of the McKinsey Group, which is principally engaged in the provision of management consulting services worldwide, as they are both under control of McKinsey & Company, Inc., a company incorporated in New York, the United States of America which is independent of and not connected with any of the Directors, chief executives, substantial shareholders or management shareholders of the Company or any of their respective associates. To the best knowledge of the Directors, McKinsey & Company, Inc. and other companies within the McKinsey Group are not listed on any stock exchanges.

Subscription Shares:

31,200,000 new Shares, representing about 1.99% of the existing issued share capital of the Company and about 1.95% of the issued share capital of the Company as enlarged by the Subscription Shares. The Subscription Shares will be issued, subject to the fulfillment of the conditions of the Subscription Agreement, under the general mandate granted by the Shareholders to the Directors at the annual general meeting of the Company held on 18 July 2003.

Subscription price:

A total of HK\$3,120,000 for all the Subscription Shares, representing a consideration of HK\$0.10 per Subscription Share, which shall be settled by way of full settlement of the entire outstanding amount of US\$400,000 (equivalent to about HK\$3,120,000) currently due by the Group to McKinsey HK. The subscription price of HK\$0.10 per Subscription Share represents (i) a discount of about 16.67% to the closing price of HK\$0.12 per Share as quoted on the Stock Exchange on 20 October 2003 (being the date of the Subscription Agreement), (ii) a discount of about 15.25% to the average of the closing prices of the Shares as quoted on the Stock Exchange during the 10-day period up to 20 October 2003 of HK\$0.118 per Share; and (iii) a premium of about 1,072% over the audited consolidated net asset value per Share as at 31 March 2003. The subscription price was determined by the Company and the Subscriber after arm's length negotiation, with reference to the recent market prices of the Shares as quoted on the Stock Exchange.

Conditions of the Subscription Agreement:

The allotment and issue of the Subscription Shares to the Subscriber is conditional upon (i) the listing of and permission to deal in all the Subscription Shares being granted by the GEM Listing Committee of the Stock Exchange (and such permission and listing not subsequently being revoked prior to the delivery of definitive share certificate(s) representing the Subscription Shares), and (ii) the obtaining of any other requisite approvals and consents to facilitate completion of the Subscription.

If any of the conditions of the Subscription Agreement is not fulfilled or (as the case may be) waived in writing by the Subscriber on or prior to 4 December 2003 (being the date falling 45 days after the date of the Subscription Agreement) or such later date as may be agreed by the parties to the Subscription Agreement, the Subscription Agreement shall be terminated, in which case the Company shall immediately make a cash payment to McKinsey HK amounting to US\$400,000 (equivalent to about HK\$3,120,000), together with the relevant interest at the rate of 10% per annum, for the purpose of settling the entire outstanding amount currently due by the Group to McKinsey HK in full. Such cash payment to McKinsey HK (if any) will be financed by the Group's internal resources.

Completion of the Subscription:

The Completion Date is expected to fall on the third business day after the conditions of the Subscription Agreement have been fulfilled or waived (as the case may be) and shall not be later than 4 December 2003 (being the date falling 45 days after the date of the Subscription Agreement) or such later date as may be agreed by the parties to the Subscription Agreement. On the Completion Date, the Company shall, among other things, allot and issue to the Subscriber (or as it may direct) the Subscription Shares. Upon the allotment and issue of the Subscription Shares, the Company shall be discharged from any and all obligations in relation to the entire outstanding amount of US\$400,000 (equivalent to about HK\$3,120,000) currently due by the Group to McKinsey HK. As at the date of this announcement, the Group owed a total of US\$400,000 (equivalent to about HK\$3,120,000) to McKinsey HK (as at the date of the Subscription Agreement, no interest has been accrued on such outstanding amount of US\$400,000, but it has been a term of the Subscription Agreement that if the Subscription is not completed accordingly, the Company shall immediately make a cash payment to McKinsey HK amounting to US\$400,000 together with the relevant interest at the rate of 10% per annum). On that basis and upon completion of the Subscription, the Group will not owe any amount to McKinsey HK.

Application for listing:

Application will be made by the Company to the Stock Exchange for the grant of listing of and permission to deal in the Subscription Shares.

Lock up of the Subscription Shares:

The Subscriber has agreed that for a period of 6 months from the Completion Date, it and its nominee (if any) will not transfer any of the Subscription Shares to any third party.

Reasons for the Subscription:

The Subscription is effected to fully settle the entire outstanding amount of US\$400,000 (equivalent to about HK\$3,120,000) currently due by the Company to McKinsey HK. In addition, the Subscription will enlarge the capital base of the Company. The terms and conditions of the Subscription Agreement, including the subscription price, were concluded after arm's length negotiation between the parties to the Subscription Agreement. The Directors consider that the terms of the Subscription Agreement are fair and reasonable and the Subscription is in the interests of the Company and the Shareholders as a whole.

SHAREHOLDING STRUCTURE BEFORE AND AFTER COMPLETION OF THE SUBSCRIPTION

Set out below is the shareholding structure of the Company immediately before and after completion of the Subscription (based on the existing shareholding structure of the Company):

	Immediately before completion of the Subscription		Immediately after completion of the Subscription	
	No. of Shares	%	No. of Shares	%
Van Shung Chong (B.V.I.) Limited (Note 1)	301,026,000	19.23	301,026,000	18.86
TN Development Limited (Note 2)	165,175,600	10.55	165,175,600	10.35
Huge Top Industrial Ltd. (Note 3)	159,811,344	10.21	159,811,344	10.01
Right Action Offshore Inc. (Note 4)	102,400,000	6.54	102,400,000	6.41
Public (including the Subscriber)	836,770,953	53.47	867,970,953	54.37
	<u>1,565,183,897</u>	<u>100.00</u>	<u>1,596,383,897</u>	<u>100.00</u>

Notes:

1. Van Shung Chong (B.V.I.) Limited ("VSC BVI") is a wholly-owned subsidiary of Van Shung Chong Holdings Limited, a company the shares of which are listed on the Main Board and about 54.69% of the issued share capital of which are owned by Huge Top Industrial Ltd. ("Huge Top", please refer to Note 3 below). The board of directors of VSC BVI comprises Mr. Andrew Yao Cho Fai and Ms. Miriam Yao Che Li, who are Directors.
2. TN Development Limited ("TN Development") is owned as to 54% by VSC BVI and as to 10% by Mr. Andrew Yao Cho Fai. The board of directors of TN Development comprises Mr. Andrew Yao Cho Fai and Ms. Miriam Yao Che Li.
3. Huge Top is owned as to more than one-third by Mr. Andrew Yao Cho Fai indirectly. The board of directors of Huge Top comprises of Mr. Andrew Yao Cho Fai and Ms. Miriam Yao Che Li.
4. Right Action Offshore Inc. is entirely owned by Mr. Andrew Yao Cho Fai.

GENERAL

The Group is principally engaged in the trading of steel products, provision of procurement services and operation of an e-commerce vertical portal for the provision of online steel trading and ancillary services.

As at the date of this announcement, there were (i) 1,565,183,897 Shares in issue; (ii) 312,216,103 outstanding Warrants; and (iii) 92,000,000 outstanding Options. According to the instrument of the Warrants and the Share Option Schemes, no adjustment to the subscription prices of Shares payable upon exercise of the subscription rights attaching to the outstanding Warrants and the outstanding Options respectively is required as a result of the Subscription.

According to the Company's annual report for the year ended 31 March 2003, the net tangible assets per Share as at 31 March 2002 and 2003 were HK\$0.0051 (based on audited consolidated net tangible assets of about HK\$7,901,000 and 1,564,500,000 Shares in issue as at 31 March 2002) and HK\$0.0079 (based on audited consolidated net tangible assets of about HK\$12,433,000 and 1,564,503,000 Shares in issue as at 31 March 2003). In addition, the loss per Share and earnings per Share for the years ended 31 March 2002 and 2003 were HK\$0.0114 and HK\$0.0042, respectively.

The aggregate subscription price for all the Subscription Shares represents about 23.89% of the adjusted consolidated net tangible assets of the Group based on the Group's audited consolidated net tangible assets as at 31 March 2003 and its unaudited net profit for the three months ended 30 June 2003. The Subscription therefore constitutes a discloseable transaction for the Company under Chapter 19 of the GEM Listing Rules. A circular containing information on the Subscription will be sent to the Shareholders (and for information only, the Warrantholders) as soon as practicable and in any event within 21 days from the date of this announcement.

DEFINITIONS

In the announcement, unless the context otherwise requires, the expressions below have the following meanings:

“associate(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Company”	iSteelAsia Holdings Limited, which is incorporated in Bermuda with limited liability and the Shares of which are listed on GEM
“Completion Date”	the date of completion of the Subscription Agreement
“Director(s)”	director(s) of the Company
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries

“Main Board”	the stock market operated by the Stock Exchange prior to the establishment of GEM (excluding the option market) and which stock market continues to be operated in parallel with GEM
“management shareholder”	has the meaning ascribed thereto under the GEM Listing Rules
“McKinsey HK”	McKinsey & Company, Inc. Hong Kong, a company incorporated in Delaware, the United States of America
“McKinsey Group”	McKinsey & Company, Inc., a company incorporated in New York, the United States of America, and its group companies. The McKinsey Group is principally engaged in the provision of management consulting services worldwide
“Options”	options of the Company which were granted under the Share Option Schemes
“Share(s)”	share(s) of HK\$0.10 each of the Company
“Shareholders”	holders of Shares
“Share Option Schemes”	the share option schemes of the Company which were approved and adopted by the Company on 13 April 2000 and 10 June 2002
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	AFAC Equity, L.P., a limited partnership incorporated in Delaware, the United States of America
“Subscription”	the subscription by the Subscriber of the Subscription Shares pursuant to the Subscription Agreement
“Subscription Agreement”	the subscription agreement dated 20 October 2003 entered into by the Company, the Subscriber and McKinsey HK in relation to the Subscription
“Subscription Shares”	a total of 31,200,000 new Shares to be allotted and issued by the Company to the Subscriber pursuant to the Subscription Agreement
“substantial shareholder”	has the meaning ascribed thereto under the GEM Listing Rules
“Warrantholders”	registered holders of the Warrants

“Warrants”

warrants of the Company which have been issued in registered form in units of HK\$20,000 and each conferring rights to subscribe for 200,000 new Shares at an initial subscription price of HK\$0.10 per Share (subject to adjustments) at any time from 18 June 2002 to 17 June 2005, both dates inclusive

By order of the Board

Drina C. Yue

Director and Chief Executive Officer

Hong Kong, 20 October 2003

This announcement, for which the directors of the Company 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 of Hong Kong Limited for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquires, confirm that, to the best of their knowledge and belief: 1. the information contained in this announcement is accurate and complete in all material respects and not misleading; 2. there are no other matters the omission of which would make any statement in this announcement misleading; and 3. all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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