

iSteelAsia.com Limited

亞洲鋼鐵電子交易所有限公司*



iSteelAsia.com

2002/03 第三季度
業績報告
3rd Quarterly Report

THIRD QUARTERLY REPORT FOR THE NINE MONTHS ENDED 31ST DECEMBER, 2002

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 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.

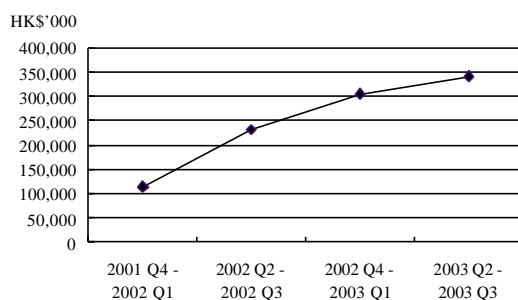
This report, for which the directors of iSteelAsia.com Limited ("the Directors") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange ("the GEM Listing Rules") for the purpose of giving information with regard to iSteelAsia.com 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

Turnover for the nine months ("Q1-Q3") and three months ("Q3") ended 31st December, 2002 were approximately HK\$518 million and HK\$175 million, respectively, representing 71.4% and 41.2% increase by comparing the results in the corresponding periods last year, respectively.

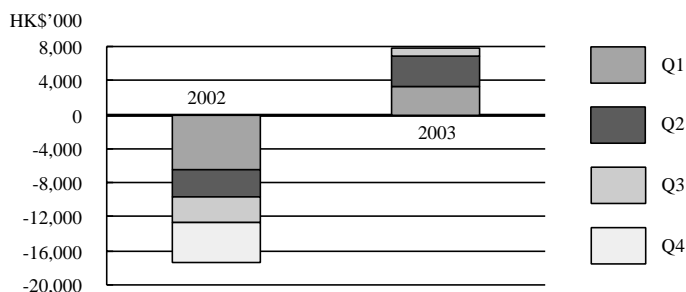
Consecutive growth in turnover



Profit attributable to shareholders

The iSteelAsia Group recorded a profit attributable to shareholders of approximately HK\$7.8 million for the nine months ended 31st December, 2002, as compared to a loss of approximately HK\$12.7 million in the corresponding period last year. This is the third consecutive quarter the Group has recorded a profitable performance.

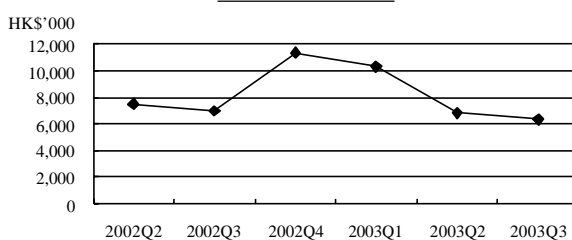
Profit attributable to shareholders



Operating cost

The iSteelAsia Group's Operating Cost has been kept at a constant level at approximately HK\$23.5 million for the nine months ended 31st December, 2002 amid the continuous expansion of the sales distribution network for steel in the People's Republic of China ("PRC"). For the period under review, headcounts had been increased cautiously from approximately 50 to over 70 covering six offices in the PRC.

Operating Cost



RESULTS

The Board of Directors of iSteelAsia.com Limited ("the Company" or "iSteelAsia") has the pleasure of presenting the unaudited consolidated results of the Company and its subsidiaries (together "the Group" or "iSteelAsia Group") for the nine months and three months ended 31st December, 2002 together with the comparative unaudited figures for the corresponding periods in 2001, as follows:

	Note	For the nine months ended 31st December,		For the three months ended 31st December,	
		2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover					
— Sales		507,200	297,705	171,841	123,172
— Commission		10,276	4,296	3,335	792
— Dividend income		311	69	—	69
	1	<u>517,787</u>	<u>302,070</u>	<u>175,176</u>	<u>124,033</u>
Cost of inventories sold		(481,126)	(289,144)	(165,820)	(119,999)
Staff costs		(10,095)	(12,885)	(3,730)	(3,469)
Research and development expenses		—	(1,048)	—	(349)
Marketing and branding expenses		(75)	(225)	(44)	(18)
Amortisation of website development costs		(977)	(815)	(327)	(271)
Depreciation of furniture and equipment		(642)	(537)	(240)	(177)
Impairment loss of long-term investment		(804)	—	(116)	—
Other operating expenses		(10,895)	(8,645)	(1,892)	(2,710)
Profit (Loss) from operations		<u>13,173</u>	<u>(11,229)</u>	<u>3,007</u>	<u>(2,960)</u>
Interest income		731	1,833	192	356
Interest expense		(4,516)	(3,192)	(1,649)	(418)
Profit (Loss) before taxation		<u>9,388</u>	<u>(12,588)</u>	<u>1,550</u>	<u>(3,022)</u>
Taxation	2	(855)	(186)	(267)	(124)
Profit (Loss) after taxation but before minority interests		<u>8,533</u>	<u>(12,774)</u>	<u>1,283</u>	<u>(3,146)</u>
Minority interests		(748)	29	(281)	29
Profit (Loss) attributable to shareholders		<u>7,785</u>	<u>(12,745)</u>	<u>1,002</u>	<u>(3,117)</u>
Earnings (Loss) per share — Basic	3	<u>0.50 cents</u>	<u>(0.84) cents</u>	<u>0.06 cents</u>	<u>(0.20) cents</u>

Notes:

1. Turnover

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

2. Taxation

Taxation consisted of:

	For the nine months ended 31st December,		For the three months ended 31st December,	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current taxation				
— Mainland China enterprise income tax	<u>855</u>	<u>186</u>	<u>267</u>	<u>124</u>

No Hong Kong profits tax has been provided as the iSteelAsia Group had no assessable profit under Hong Kong profits tax during the nine months and three months ended 31st December, 2002 (2001 — nil). Subsidiaries operated in Mainland China are subject to Mainland China enterprise income tax.

3. Earnings (Loss) per share

The calculations of basic earnings (loss) per share for the nine months and three months ended 31st December, 2002 were based on the unaudited consolidated profit attributable to shareholders of approximately HK\$7,785,000 (2001 — loss of HK\$12,745,000) and HK\$1,002,000 (2001 — loss of HK\$3,117,000) respectively and on the weighted average number of 1,564,500,035 (2001 — 1,514,900,000) shares and 1,564,500,104 (2001 — 1,564,500,000) shares in issue during the nine months and three months ended 31st December, 2002 respectively.

Diluted earnings per share for the nine months and three months ended 31st December, 2002 are not presented because the potential shares outstanding had an anti-dilutive effect.

There were no potential shares outstanding during the nine months and three months ended 31st December, 2001 and thus no dilutive loss per share was presented.

4. Dividends

The Directors do not recommend the payment of an interim dividend for the nine months ended 31st December, 2002.

5. Movements in share capital and reserves

For the nine months ended 31st December, 2002, movements in share capital and reserves are as follows:

	Share capital	Reserves				Total
		Share premium	Capital reserve	Asset revaluation reserve	Cumulative translation adjustments	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance, 1st April, 2002	156,450	11,099	2,700	(18,552)	145	(4,608)
Deficit on revaluation of long-term investment	—	—	—	(3,530)	—	(3,530)
Translation adjustments	—	—	—	—	3	3
Balance, 31st December, 2002	<u>156,450</u>	<u>11,099</u>	<u>2,700</u>	<u>(22,082)</u>	<u>148</u>	<u>(8,135)</u>

FINANCIAL AND BUSINESS PERFORMANCE

The Board of Directors is pleased to report the iSteelAsia Group's third quarter results for the financial year ending 31st March, 2003. For the nine months and three months ended 31st December, 2002, the iSteelAsia Group recorded a turnover of approximately HK\$518 million and HK\$175 million, respectively, representing a 71.4% and 41.2% increase respectively by comparing with the results in the corresponding periods last year. Profit attributable to shareholders for the nine months and three months ended 31st December, 2002 reached approximately HK\$7.8 million and HK\$1.0 million, respectively, representing an improvement as compared to the losses attributable to shareholders of approximately HK\$12.7 million and HK\$3.1 million in the corresponding periods last year. Profit from operations or earnings before interest and tax ("EBIT") for the nine months and three months ended 31st December, 2002 were approximately HK\$13.2 million and HK\$3.0 million, respectively. Total costs excluding cost of inventories sold and finance cost ("Operating Cost") for the nine months ended 31st December, 2002 were approximately HK\$23.5 million, which translated into an average Operating Cost of approximately HK\$2.6 million per month. With the continuous efforts in controlling operating costs, the iSteelAsia Group was able to increase the operational effectiveness. For the period under review, headcounts increased from approximately 50 to over 70 covering six offices (an increase of 40% from the corresponding period last year) in the PRC. These increased headcounts were all sales related personnel located in the PRC. This has enabled iSteelAsia to expand its distribution network in the PRC and consequently lead to enhanced level of services delivered to customers.

On a quarter to quarter basis, the performance in Q3 was not as robust as in Q1 or Q2. Comparing the results in Q3 (three months ended 31st December, 2002) with the results attained in Q2 (three months ended 30th September, 2002), turnover was increased by only 6% to approximately HK\$175 million. However, profit attributable to shareholders had dropped 71.5% to approximately HK\$1.0 million. This deviation in performance is mainly due to a cyclical trend that steel demand has traditionally been slow for the months leading up to December, as one has to deal with the year-end, and also less favourable weathers for the construction and manufacturing activities. As one can observe, the drop in profitability was mainly due to the drop in gross margins as costs of purchase had continued to be driven up by the rise in market prices. Throughout this whole volatile market, the management had adapted various strategies to address these volatilities, for example, established long-term relationships with suppliers as well as customers to better forecast demands and supply thus allowing the Group to more effectively combat the volatile pricing and control the level of inventory. On the other hand, the iSteelAsia Group would continue to find various ways to lower the costs of purchase by streamlining purchasing activities.

From a business perspective, the iSteelAsia Group has expanded continuously its sales distribution network in the PRC with coverage in cities like Beijing, Shanghai, Guangzhou, Tianjin, Shenzhen and Chongqing. Through this enhanced network and its focus on providing quality customer services, the iSteelAsia Group is able to build a strong and coherent relationship with its customers. Turnover for the nine months ended 31st December, 2002 reached over HK\$500 million, which was very encouraging and has exceeded the record achieved for the whole year ended 31st March, 2002 of approximately HK\$428 million. The iSteelAsia Group has continued to strive for its mission to become the dominant steel distribution network and be one of the most efficient and cost effective distributors and value-added service providers in the metal ecosystem in Asia especially in China. The iSteelAsia Group is committed to optimise the margin of each trade. Since the construction sector is growing rapidly in the PRC, the iSteelAsia Group is evaluating the possibilities of diversifying its product offerings into long products like rebars, H-beams and other steel construction material in China, and at the same time, maintaining the policy of doing back to back transactions with new customers.

As a unique characteristic of any trading business, the iSteelAsia Group, being involved in the business of steel trading and distribution, naturally has a low base of long-term assets. Sales are mainly conducted with advanced deposit and payment of cash upon delivery. Credit is only granted to customers with whom the iSteelAsia Group already has long business relationships and has shown very sound financial backings. As at 31st December, 2002, the iSteelAsia Group recorded amounts of approximately HK\$7,308,000 due from Boto Company Limited (“Boto”). The balance of accounts receivable from Boto accounted for approximately 92.5% of the iSteelAsia Group’s audited net tangible assets as at 31st March, 2002. Boto has been a credible customer of the iSteelAsia Group for over three years, and an independent third party of the Company and their respective associates. Sales transactions with Boto were conducted in the ordinary course of business of the iSteelAsia Group and settlements of the accounts receivables were made in accordance with the payment terms customary to the industry and agreed on an arm’s length basis with the customer. No interest was charged on the trading balances as they are still within the credit terms agreed with the customer. Boto gave no collateral under the sales transaction. Pursuant to Rule 17.22 of the GEM Listing Rules, particulars of such trading balance are required to be disclosed. During the period under review, the iSteelAsia Group experienced no bad debt from any customer nor the iSteelAsia Group considered that there was any material collectibility problem from the customer.

OUTLOOK

Steel, being one of the traditional commodities, is the basic raw material for building constructions, infrastructure developments and daily utensils (like refrigerators, air conditioners, televisions, motor vehicles or even computers). Finished steel consumption in China continues to be leading in the world with a projected 215 million tonnes in 2003 according to International Iron and Steel Institute (IISI). Although the Group expects the market to continue to be quite volatile in the short term as a result of uncertainties created by various global issues, the Group is confident that it has a sound business model, and will continue to modify it to better suit the dynamics of the macro situation.

As stated by various international organization like U.N. and coupled with Beijing winning the right to host the 2008 Olympic Games and Shanghai winning the right to host the 2010 World Expo, the PRC is expected to be a key growth engine to the world’s economy, accordingly, the management remains very optimistic with the outlook of the PRC market and especially the future prospect of specific regions the iSteelAsia Group operates in. To pursue the stated mission “to become the dominant steel trading network and be the most efficient, cost effective distributor, and value-added service provider throughout the entire metal ecosystem in Asia”, the iSteelAsia Group will continue to prudently explore opportunities to grow organically and through merger and acquisition.

As mentioned in earlier reports, and again reflected in this quarterly review of the Group’s performance, the management has focused a significant amount of the Group’s resources towards the traditional steel trading business (as described in the Company’s prospectus dated 14th April, 2000). It is the management’s view that the Group’s performance will continue to be driven by this traditional steel distribution and trading infrastructure business for the foreseeable future. Although the Group continues to maintain and update its steel-trading platform to keep it at the leading edge of technology, the Group is of the view that the Internet penetration rate for “B2B” will take much longer than originally expected by the global circles. The Internet sector continues to be consolidating as the aftermath of the crashed or the “dot bomb” that happened a few years ago. As such, the management will continue to fine tune and adapt the Group’s business model in response to the dynamics of the steel industry and the macro environments.

On behalf of the Board of Directors, I would like to take this opportunity to offer my appreciation to our shareholders for their confidence in the iSteelAsia Group, our worldwide customers for their trust and support in our products and services throughout the years, as well as our staff for their dedication and diligence.

DIRECTORS' INTEREST IN SHARES AND WARRANTS

As at 31st December, 2002, the interests of the Directors and the chief executives of the Company in the equity or debt securities of the Company or any of its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")) which were notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including interests which they were taken or deemed to have under Section 31 of, or Part 1 of the Schedule to, the SDI Ordinance), or which were required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(a) Ordinary shares ("Shares") of the Company of HK\$0.10 each and Warrants

Name	Type of interest	Attributable interest to the Director	Number of Shares	Number of Warrants (Note 1)
Mr. Andrew Cho Fai Yao	— Corporate interest held by TN (Note 2)	deemed interest (indirectly)	196,301,600	39,260,320
	— Corporate interest held by Huge Top (Note 3)	more than one-third (indirectly)	159,811,344	31,962,268
	— Corporate interest held by VSC BVI (Note 4)	through Huge Top (indirectly)	301,026,000	60,205,200
	— Corporate interest held by Right Action (Note 5)	100% (directly)	<u>102,400,000</u>	<u>20,480,000</u>
		Total:	<u>759,538,944</u>	<u>151,907,788</u>
Ms. Miriam Che Li Yao	— Corporate interest held by TN (Note 2)	deemed interest (indirectly)	196,301,600	39,260,320
	— Corporate interest held by Huge Top (Note 3)	more than one-third (indirectly)	159,811,344	31,962,268
	— Corporate interest held by VSC BVI (Note 4)	through Huge Top (indirectly)	<u>301,026,000</u>	<u>60,205,200</u>
		Total:	<u>657,138,944</u>	<u>131,427,788</u>
Mr. Philip King Huen Ma	— Corporate interest held by S & S (Note 6)	—	<u>159,324</u>	<u>31,864</u>

Notes:

1. The warrants of the Company ("Warrants") entitle the holders to subscribe in cash for ordinary shares of HK\$0.1 each in the Company at a subscription price of HK\$0.1 each (subject to adjustment) and are exercisable between 18th June, 2002 and 17th June, 2005.
2. As at 31st December, 2002, TN Development Limited ("TN") owns 196,301,600 Shares and 39,260,320 Warrants. Van Shung Chong (B.V.I.) Limited ("VSC BVI") owns 54% of the issued share capital of TN and Andrew Cho Fai Yao owns 10% of the issued share capital of TN. The board of directors of TN only comprises Andrew Cho Fai Yao and Miriam Che Li Yao. These interests of the aforesaid Directors in the securities of the Company were corporate interests.

All Shares held by TN 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 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.
3. As at 31st December, 2002, Huge Top Industrial Ltd. ("Huge Top") owns 159,811,344 Shares and 31,962,268 Warrants. Andrew Cho Fai Yao directly and indirectly owns more than one-third of the issued share capital of Huge Top. The board of directors of Huge Top only comprises Andrew Cho Fai Yao and Miriam Che Li Yao. These interests of the aforesaid Directors in the securities of the Company were corporate interests.
4. As at 31st December, 2002, VSC BVI owns 301,026,000 Shares and 60,205,200 Warrants and Huge Top owns approximately 55.99% of the issued share capital of Van Shung Chong Holdings Limited ("VSC"). Andrew Cho Fai Yao and Miriam Che Li Yao are directors of VSC. VSC BVI is a wholly-owned subsidiary of VSC. The board of directors of VSC BVI comprises Andrew Cho Fai Yao and Miriam Che Li Yao. These interests of the aforesaid Directors in the securities of the Company were corporate interests.
5. As at 31st December, 2002, Right Action Offshore Inc. ("Right Action") owns 102,400,000 Shares and 20,480,000 Warrants. 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.
6. As at 31st December, 2002, S & S Management Co. Ltd. ("S & S") owns 159,324 Shares and 31,864 Warrants. Philip King Huen Ma is deemed to be interested in these 159,324 Shares and 31,864 Warrants.

(b) Employee options to purchase Shares from TN

Name	Employee options granted	Number of employee options		
		Beginning of period	Exercised during the period	End of period
Ms. Drina C. Yue (<i>Note 1</i>)	30,720,000	20,480,000	—	20,480,000
Mr. Daniel Takuen Shih (<i>Note 1</i>)	2,000,000	2,000,000	—	2,000,000

Note:

1. Each of Drina C. Yue and Daniel Takuen Shih has been granted an option to purchase 30,720,000 Shares (balance as at 31st December, 2002 — 20,480,000 Shares) and 2,000,000 Shares respectively from TN, at an exercise price per Share of HK\$0.054, under separate share option agreements both dated 13th April, 2000. The option shall vest starting on 13th April, 2001 and 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 be 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 be exercised in accordance with (a) and (b) above) be exercised in full.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Under the terms of the Company's share option scheme approved by the shareholders on 13th April, 2000 ("the Old Scheme"), the Board of Directors of the Company may, at their discretion, invite any full-time employees of the Company or any of the iSteelAsia Group companies, including any executive directors, to take up options to subscribe for Shares in the Company. The Old Scheme became effective upon the listing of the Company's Shares on 20th April, 2000.

Details of movements in the share options to subscribe for shares of HK\$0.10 each in the Company granted to and held by certain Directors during the nine months ended 31st December, 2002 under the Old Scheme were as follows:

Name	Date of grant	Exercise price per Share	Exercise period	Number of options		
				Beginning of period	Exercised during the period	End of period
Ms. Drina C. Yue	3rd July, 2000	HK\$0.360	1st October, 2001-12th April, 2010	2,000,000	—	2,000,000
	7th November, 2000	HK\$0.485	8th November, 2001-12th April, 2010	5,000,000	—	5,000,000
Ms. Miriam Che Li Yao	3rd July, 2000	HK\$0.360	1st October, 2001-12th April, 2010	2,500,000	—	2,500,000
	7th November, 2000	HK\$0.485	8th November, 2001-12th April, 2010	5,000,000	—	5,000,000
Mr. Andrew Cho Fai Yao	7th November, 2000	HK\$0.485	8th November, 2001-12th April, 2010	5,000,000	—	5,000,000

No options 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 will be granted thereunder but in all other respects, the provisions of the Old Scheme shall remain in force and all options granted prior to such termination shall 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 statutory requirements. Up to the date of this quarterly report, no options have been granted pursuant to the New Scheme.

Save as disclosed above, at no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the Company’s Directors or their associates to acquire benefits by means of the acquisition of Shares in, or debt securities (including debentures) of, the Company or any other body corporate.

Other than disclosed above, as at 31st December, 2002, neither the Directors nor their associates, had any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance, and neither the Directors nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the period.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2002, according to the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance, those shareholders (other than those interests of Directors disclosed above) having an interest of 10% or more of the issued share capital of the Company were as follows:

Name		Number of Shares	Total number of Shares	Notes
VSC BVI	— directly	301,026,000		
	— indirect deemed interest through TN	196,301,600	497,327,600	1
VSC	— indirectly through VSC BVI	301,026,000		
	— indirect deemed interest through TN	196,301,600	497,327,600	1 & 2
Huge Top	— directly	159,811,344		
	— indirectly through VSC BVI	301,026,000		
	— indirect deemed interest through TN	196,301,600	657,138,944	1, 2 & 3
TN	— directly	196,301,600	196,301,600	4
Mr. Leroy Lin Yuen Kung	— indirectly through Grand Bridge	181,824,000	181,824,000	5
Galaface Limited	— indirectly through Grand Bridge	181,824,000	181,824,000	5
Asian Gold Associates Limited	— indirectly through Grand Bridge	181,824,000	181,824,000	5
iMerchants Group Limited	— indirectly through Grand Bridge	181,824,000	181,824,000	5
Grand Bridge Enterprises Limited	— directly	181,824,000	181,824,000	5

Notes:

1. VSC BVI owns 54% of the share capital of TN and is deemed to be interested in the 196,301,600 Shares held by TN. VSC BVI directly owns 301,026,000 Shares. VSC BVI is therefore directly and indirectly interested in an aggregate of 497,327,600 Shares.
2. VSC owns the entire issued share capital of VSC BVI, VSC is therefore deemed to be interested in an aggregate of 497,327,600 Shares.
3. Huge Top is beneficially interested in approximately 55.99% of the issued share capital of VSC as at 31st December, 2002 and is therefore deemed to be interested in the 196,301,600 Shares held by TN and the 301,026,000 Shares held by VSC BVI. Huge Top also directly owns 159,811,344 Shares. Huge Top is therefore directly and indirectly interested in an aggregate of 657,138,944 Shares.
4. All Shares held by TN 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 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.
5. Grand Bridge Enterprises Limited ("Grand Bridge") directly owns 181,824,000 Shares. Grand Bridge is a wholly-owned subsidiary of iMerchants Group Limited which is a wholly-owned subsidiary of Asian Gold Associates Limited ("AGA"). AGA is a company in which Galaface Limited is entitled to exercise more than one-third of its voting power. Galaface Limited is a company owned and controlled by Mr. Leroy Lin Yuen Kung.

SPONSOR'S INTERESTS

ICEA Capital Limited ("ICEA") has been appointed by the Company as the sponsor to the Company from 16th August, 2001.

As at 31st December, 2002 and as updated and notified by ICEA:

1. Neither ICEA nor its associates have any interest in any class of securities of the Company or any other company in the iSteelAsia Group (including options or rights to subscribe such securities);
2. No director or employee of ICEA who is involved in providing advice to the Company has any interest in any class of securities of the Company or any other company in the iSteelAsia Group (including options or rights to subscribe such securities);
3. Neither ICEA nor its associates expect to have accrued any material benefit as a result of the successful outcome of any transaction, including by way of example, the repayment of material outstanding indebtedness and payment of any underwriting commissions or success fees; and
4. No director or employee of ICEA has a directorship in the Company or any other company in the iSteelAsia Group.

Pursuant to the agreement dated 3rd August, 2001 entered into between the Company and ICEA, ICEA would receive a fee for acting as the Company's retained sponsor for the period from 16th August, 2001 to 30th April, 2003.

COMPETING INTERESTS

Mr. Ralph David Oppenheimer, a non-executive director of the Company, is the chairman and chief executive of Stemcor Holdings Limited whose business is principally engaged in the international steel trading. The Directors believe that there is a risk that such business may compete with those of the iSteelAsia Group. However, the Directors are also of the view that the invaluable experience of Mr. Oppenheimer in the steel industry will complement the development of the iSteelAsia Group's business.

Save as disclosed above, none of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) has an interest in a business, which competes or may compete with the business of the iSteelAsia Group.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the nine months ended 31st December, 2002.

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. Yeung Kwok Keung and Mr. Philip King Huen Ma. This unaudited financial statement for the nine months and three months ended 31st December, 2002 of the Company now reported on have been reviewed by the Audit Committee.

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

Hong Kong, 13th February, 2003

