

# iSteelAsia.com

## INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2000

### 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.

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*This announcement, 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 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 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.*

#### Highlights

- For the six months ended 30th September, 2000, the Group recorded a turnover of approximately HK\$105,455,000, representing a 32% increase as compared to the same period in 1999/2000.
- The Group's loss attributable to shareholders has been substantially decreased to approximately HK\$14,615,000 in Q2, representing a 56% decrease by comparing to the loss attributable to shareholders incurred in Q1.
- Up to 30th September, 2000, a total of approximately US\$146 million worth of traded transactions have been concluded through iSteelAsia.com since the launching of the website in December 1999. By comparing the statistics in Q2 against Q1, membership has grown 23% and transaction postings have grown 65%. Completed transaction volume has grown 31% to approximately US\$64 million and commission income has grown 196% to approximately HK\$4,343,000.
- In July 2000, the Company entered into Memoranda of Understanding with Dao Heng Bank, COSCO (H.K.) Shipping Co., Ltd. and BNP Paribas as strategic partners to provide value-added services to iSteelAsia.com's customers.
- In August 2000, the Company entered into a non-binding "heads of terms" agreement for the acquisition of a strategic interest in a London-based international steel trader, Stemcor. The Directors anticipated that a formal binding agreement will be entered into between the Company and Stemcor no later than 31st December, 2000.
- In September 2000, the Company announced that iSteelIndia.com would be established as a steel portal focusing on the Indian domestic steel trading market using a franchise model. Initially, the Company will partner with HFCL, a leading Indian technology company, CPH, a leading Australian multimedia company, and Stemcor to set up the new venture.
- In October 2000, the Company launched a Scient-built second generation trading platform (iSteelAsia.com) as the foundation for its continued business expansion.

#### Interim Results

The Board of Directors of iSteelAsia.com Limited ("the Company") has the pleasure in presenting the unaudited consolidated results of the Company and its subsidiaries (together "the Group") for the three months and the six months ended 30th September, 2000 together with the comparative unaudited figures for the corresponding periods in 1999 as follows:

	Notes	For the three months ended 30th September, 2000		For the six months ended 30th September, 2000	
		2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Turnover	2	49,357	49,519	105,455	79,673
Cost of sales		(43,298)	(43,815)	(96,861)	(70,355)
Gross Profit		6,059	5,704	8,594	9,338
Distribution and Selling expenses		(694)	(945)	(1,184)	(1,622)
Research and Development Expenses		(2,408)	-	(16,549)	-
Marketing and branding expenses		(3,018)	-	(11,268)	-
General and administrative expenses		(15,135)	(865)	(29,325)	(2,324)
(Loss) Profit from operations		(15,196)	3,894	(49,732)	5,392
Interest income		924	47	2,444	63
Interest expense		(124)	-	(234)	-
(Loss) Profit before taxation		(14,396)	(3,941)	(47,522)	5,455
Taxation	3	(219)	(356)	(443)	(504)
(Loss) profit attributable to shareholders		(14,516)	3,585	(47,965)	4,951
(Loss) Earnings per share - Basic	4	(1.00) cents	0.28 cents	3.34 cents	0.39 cents

Notes:

## 1. Group reorganisation and basis of presentation

The Company was incorporated in Bermuda on 10th February, 2000 as an exempted company under the Companies Act 1981 of Bermuda. Its shares have been listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited since 20th April, 2000. Pursuant to a group reorganisation scheme in preparation for the listing of the Company's shares, the Company became the holding company of the companies comprising the group (collectively referred as "the Group") on 13th April, 2000. The group reorganisation involved companies under common control, and the Company and its subsidiaries resulting from the reorganisation are regarded as a continuing group. Accordingly, the reorganisation and the unaudited consolidated income statements for the three months and the six months ended 30th September, 2000 have been accounted for on the basis of merger accounting. Details of the group reorganisation are described in the Company's prospectus dated 14th April, 2000.

The unaudited combined income statements for the three months and the six months ended 30th September, 1999 include the results of operations of the Company and its subsidiaries as if the group structure resulting from the aforementioned reorganisation executed on 13th April, 2000 had been in existence throughout the three months and the six months ended 30th September, 1999 or since the dates of incorporation of the respective group companies where these were of a shorter period.

## 2. Turnover

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

## 3. Taxation

Taxation consisted of:

	For the three months ended 30th September,		For the six months ended 30th September,	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Current taxation - HongKong Profits tax	219	356	443	504

Hong Kong profits tax was provided at the rate of 16% (1999 \* 16%) on the estimated assessable profit arising in or derived from Hong Kong.

There was no significant unprovided deferred taxation as at 30th September, 2000.

#### **4. (Loss) Earnings per share**

The calculations of basic loss per share for the three months and the six months ended 30th September, 2000 were based on the unaudited consolidated loss attributable to shareholders of approximately HK\$14,615,000 (1999 - profit of HK\$3,585,000) and HK\$47,965,000 (1999 - profit of HK\$4,951,000), respectively, and on the weighted average number of 1,454,500,000 (1999 - 1,280,000,000) shares and 1,436,382,514 (1999 - 1,280,000,000) shares in issue during the three months and the six months ended 30th September, 2000, respectively, assuming the 1,280,000,000 shares issued pursuant to the group reorganisation described in Note 1 had been outstanding throughout the six months ended 30th September, 2000.

Diluted (loss) earnings per share for the three months and the six months ended 30th September, 2000 and the three months and the six months ended 30th September, 1999 are not presented because there were no dilutive potential ordinary shares in existence during the periods.

#### **5. Dividends**

The Directors do not recommend the payment of interim dividend for the six months ended 30th September, 2000 (1999 \* Nil).

### **BUSINESS REVIEW**

To achieve its vision of becoming the premier e-enabler of the Asian steel industry, the Company remains highly focused on the execution of its core strategy and continues to deliver strong results against its vision.

The Board of Directors is pleased to report the Group's interim results for the year 2000/2001. For the six months ended 30th September, 2000, the Group recorded a turnover of approximately HK\$105,455,000, representing a 32% increase as compared to the same period in 1999/2000. The turnover from online steel trading operation represented commission income derived from completed trading transactions through iSteelAsia.com. For the six months ended 30th September, 2000, commission income of approximately HK\$5,812,000 was earned. Up to 30th September, 2000, a total of approximately US\$146 million worth of traded transactions have been concluded through iSteelAsia.com since the launching of the website in December 1999. As iSteelAsia.com was launched in December 1999, performance of online steel trading operation was compared between the periods for the three months ended 30th June, 2000 ("Q1") and the three months ended 30th September, 2000 ("Q2"). The commission income earned in Q2 represented 196% growth as compared to the commission income earned in Q1. The turnover from traditional steel trading operation has also continued to attain a stable growth. For the six months ended 30th September, 2000, such turnover has increased 25% to approximately HK\$99,643,000 as compared to the same period in 1999/2000.

On the cost side, through implementing stringent and internal cost controls, our operating cost has been decreased from approximately HK\$37,071,000 in Q1 to HK\$21,255,000 in Q2. The management is pleased to report that this cost reduction is not through any exceptional means like redundancy, instead it is mainly attributable to the significant decreases in marketing and branding expenses through a strategy of fringe marketing, as well as a decrease of research and development expenses. With our highly focused marketing efforts in Q1, a strong brand "iSteelAsia.com" has been successfully built. In addition, during the start-up stage in Q1, the Group had made substantial investments to pave the way for future long-term sustainable profitability. As a result, marketing and branding expenses decreased 63% from approximately HK\$8,250,000 to HK\$3,018,000 by comparing Q2 against Q1. Similarly, research and development expenses decreased 83% from approximately HK\$14,141,000 to HK\$2,408,000.

As a result of all these efforts and achievements, the Group's net loss has been substantially decreased to approximately HK\$14,615,000 in Q2, representing a 56% decrease by comparing to the net loss incurred in Q1.

Analysis of membership, transaction postings, completed transaction volume and commission income have all indicated continued and healthy growth. By comparing the statistics in Q2 against Q1, membership has grown 23% and transaction postings have grown 65%. Completed transaction volume has grown 31% to approximately US\$64 million and commission income has grown 196% to approximately HK\$4,343,000.

For the six months ended 30th September, 2000, the Group has accomplished its business objectives in several critical success areas.

### **Focus on capturing the Asian market**

The Group remains focused on capturing the market for key Asian steel trade flows. It has enjoyed significant success against this goal, achieving significant volume growth with over US\$146 million of steel transacted over its platform up to 30th September, 2000 since the launch in December 1999. These transactions have involved a broad range of steel products (long, flat and raw materials) encompassing all of the Group's target markets.

In India, iSteelIndia.com is going to establish as a steel portal focusing on the Indian domestic market using a franchise model. Initially, the Company will partner with Himachal Futuristic Communications Limited ("HFCL"), a leading Indian technology company, Consolidated Press Holdings ("CPH"), a leading Australian multimedia company, and Stemcor Holdings Limited ("Stemcor") to set up the new venture. The Group will take a strategic stake in iSteelIndia.com by providing its platform and technology support under license. There will also be revenue sharing arrangements for domestic and international revenues. The shareholders' agreement for this project has been completed and the licensing agreement, the business plan and management team are being put in place. The Group is also progressively pursuing domestic joint ventures or franchises in its other key Asian markets of China, Korea and Taiwan.

### **Old economy and new economy**

In August 2000, the Company entered into a non-binding "heads of terms" agreement for the acquisition of a strategic interest in the London-based international steel trader, Stemcor. As part of the agreement, Stemcor commits to transact a portion of its steel trading volume through iSteelAsia.com. This alliance immediately boosts the liquidity on the exchange and at the same time opens the door to access Stemcor's knowledge base and partnerships with value-added service providers such as financial institutions and logistics providers. In addition, given the background of Stemcor as a neutral and independent steel trader, and its well established global presence, the Company is in an advantageous position to leverage on these resources to further develop its market position in a more efficient manner.

### **Provide an integrated service offering**

Recognising that the ultimate viability of the vertical portal ("vortal") relies on the value-added services that the vortal offer to its customers, the Company has also boosted its own array of value-added services providers with established partnerships with:

- Finance : ABN AMRO Bank, BNP PARIBAS, Dao Heng Bank
- Insurance : The Chubb Corporation, Houlder Insurance Brokers (Far East) Limited
- Surveyors : SGS Mineral Services, Inspectorate, China National Import & Export Commodities Inspection Corporation (CCIC)
- Logistics : COSCO (H.K.) Shipping Co., Ltd \* Content : Reuters, Asian Information Resources Limited

### **Create and refine a distinctive technology platform**

In October 2000, the Company launched a Scient-built second generation trading platform (iSteelAsia.com) supported by Intel architecture as the foundation for its continued business expansion. This platform is considered to be on the cutting edge of online business as one of the first exchanges built on an open source. Key distinctive features of the platform are:

- Enhanced trading engine and information management - The platform enables online multi-lingual and multi-model negotiation capability allowing steel industry participants to effectively manage and execute trades. It also provides information on offers/bids available, negotiation history, and offers summaries and other information to support trading decisions.
- Content and tools - The platform offers a combination of industry news and select tools such as currency conversion and language translation to support trades.
- Fulfillment - iSteelAsia.com enables fulfillment by providing a set of value-added services such as shipping, inspection/surveying, insurance, finance and legal affairs.

- Electronic Customer Relationship Management ("eCRM") - In conjunction with the launch of this second generation trading platform, the Company is also launching a much more user centric customer support program, that includes 24 hours a day and 7 days a week customer inquiry, real time co-browsing, and voice over Internet Protocol capabilities.
- Technology -iSteelAsia.com's second generation platform is one of the first to embrace an open sources Linux based operating system running on Intel architecture. This approach has enabled the Group the ability to operate a very stable, robust and low cost platform.

## Build a strong performance-based organisation

The Company has continued to build and strengthen its organisation. Its staff numbers have grown to 73, representing a mix of steel industry, commerce and technology experience.

The Group has recently expanded its account management program to enhance the service it delivers to its users, and pursue its goal of permanently switching user behaviour from offline to online. New account managers have been hired and new processes are put in place. Key steel mills, traders and end-users are assigned a dedicated account manager. The account manager is responsible for acquiring, developing and retaining each major user. The account manager is supported by a training team and a customer service team to help in familiarising user staff with the platform and dealing with any problems that may arise.

## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

*Business objectives as stated in the prospectus dated 14th April, 2000*

*Actual business progress*

### Market Research

<i>Business objectives as stated in the prospectus dated 14th April, 2000</i>	<i>Actual business progress</i>
1 Continue to engage international consulting team(s) to assist with the formulation of overall business strategy	International management consulting firm, McKinsey & Company, is continuing to assist with the formulation and implementation of the Company's business strategy.
2 Additional research will be conducted to investigate the possibility of establishing operations in individual Asian countries	Following detailed research, the Company now has a global presence of business development teams in over 10 locations including Hong Kong, Beijing, Shanghai, Guangzhou, South Korea, India, Singapore, the Philippines, Europe, the United States of America and Japan.
3 Investigate the viability of implementing a loyalty rebate scheme to encourage Corporate Members to use iSteelAsia.com as their major sales and purchasing channel	A New Revenue Option Agreement is launched to encourage participants to use iSteelAsia.com as their major sales and purchasing channel.
4 Explore the feasibility of launching Korean and/or Japanese language support on iSteelAsia.com	Japanese and Korean language websites are under construction.
5 Explore new revenue sources such as advertising on the website	iSteelAsia.com has extended its revenue model to include revenue from value-added services (e.g. logistics, payments, insurance, etc.) and franchise fees, licensing fees and revenue sharing from domestic joint ventures.
6 Undertake feasibility study to assess the possibility of forming an alliance with a distributor of steel products in the People's Republic of China ("PRC")	The Group is in discussions with several Chinese steel mills regarding the potential formation of a local PRC joint venture steel exchange.
7 The traditional steel trading operation will explore the possibility of sourcing a range of long products from Northern China to be distributed in Southern China	The Group is continuing to investigate reliable sources of long products in Northern China.

### Development of Services

1 Revamp the website through simplifying work flow and/or core trading features and/or enhancing the existing functions	In October 2000, the Group launched the Scient-enabled leading-edge technology platform (second generation of iSteelAsia.com) running on Intel Architecture. The new platform was designed to simplify online workflow and offer new features.
2 Introduce new features such as more user-friendly website interfaces, newsletters and/or steel analyst reports	The new platform also makes the website more user-friendly with functionality to support personalisation. Among other steel industry information and reports, iSteelAsia.com distributes newsletters both online (iSteel Focus) and offline (Forging Ahead).
3 Explore the feasibility of acquiring additional content to the Group's website	iSteelAsia.com has regularly updated and enhanced the content it provides on its website. Currently, the website includes industry information and news from various service providers including Reuters and Asian Information Resources Limited.
4 Begin to form technical alliances with international high-tech companies	Partnerships have been formed with: <ul style="list-style-type: none"> <li>• Scient: User interface and negotiation-based trading engine development</li> <li>• iMerchants Limited: Back-end fulfillment services development</li> <li>• Intel: System hardware and technical support S</li> <li>• Systek Information Technology (Holdings) Limited: eCRM software tool.</li> </ul>
5 Begin to develop country specific websites for the domestic steel markets in Korea, the PRC and India	By forming partnership with HFCL, CPH and Stemcor, iSteelIndia.com will be established to serve the domestic steel market in India. Talks are underway to establish similar exchanges in the PRC and Korea.
6 Soft launch of silicon steel products which are widely used in the production of transformers by the traditional trading operation	Current market conditions are not prosperous enough with high procurement cost to launch the products but the Group will continue to monitor the market to determine the right timing for potential development in this market.

### Marketing Activities

1	Focus on the PRC and Korea	The Group has established three representative offices in the PRC and has signed an Memorandum of Understanding with leading business conglomerates in Korea to develop a country specific website.
2	Continue to leverage off iSteelAsia.com's strength as the first Asian focused vertical portal for the steel industry	iSteelAsia.com's strength as the first Asian focused vortal for the steel industry has been a key driver in attracting new members and in successful negotiations for forming strategic alliances.
3	Continue to create international brandname awareness of the iSteelAsia.com website through press conferences, conventions, conferences and personal visits to well-established industry participants in various countries such as Korea, the PRC and/or India	iSteelAsia.com has been featured in major international media including the Far Eastern Economic Review and Asiamoney as well as industry publications such as the Metal Bulletin. The Company's senior management have presented and attended various conferences around the world. Personal visits to major players in the market are an integral part of the Company's ongoing marketing plan.
4	Continue to establish strategic alliances with various participants in the supply chain	Partnerships have been formed with major buyers and sellers as well as value-added services providers such trade financing, insurance, surveying and logistics.
5	Continue to establish hyperlinks with other e-commerce websites	Currently, iSteelAsia.com has established hyperlinks with various steel organisations and associations. The Group believes ONLY hyperlinks are not good enough for our valuable members. Investigation of full integration with other e-commerce websites are underway.
6	Explore the possibility of establishing branches or representative offices in strategically important countries to enhance customer relationship management	The Group has a global presence of business development teams in over 10 locations including Hong Kong, Beijing, Shanghai, Guangzhou, South Korea, India, Singapore, the Philippines, Europe, the United States of America and Japan.
7	Begin to offer user-training seminars on utilising the benefits of the iSteelAsia.com website	Conducted many training seminars and new training seminar materials had been prepared and these seminars were launched in September 2000 by a dedicated training/seminar team within the Group.
8	Focus on traditional customers who are not yet ready to migrate to online trading and to assess their needs for highly specialised services such as warehousing and minimising inventory costs	The Group is in the process of developing a broader set of services beyond online trading and value-added services, to include supply-chain management to reduce inventory costs.

## Resources Deployment

1	Efforts will be made to continue to expand the rest of the senior management team, technical team and marketing team in the head office	As at 30th September, 2000, total staff has increased to 73 from 42 at the point when the prospectus was issued.
2	Begin efforts on assembling domestic teams for individual countries with an initial focus of hiring the senior management teams	iSteelIndia.com is currently in the process of hiring its senior management team.

## OUTLOOK

Given its achievements thus far and the strategies in place for continued growth, iSteelAsia.com is confident that its business model is sustainable and that it will be among the winners in steel e-commerce arena.

The management believes that a successful consummation of Stemcor will enhance both liquidity and acceleration in development of value-added services as well as broaden geographical reach. iSteelAsia.com continues to seek similar value-creating alliances and is considering several options to optimally finance these long-term investments.

The Company aims to be the world leader in steel e-commerce. Given the importance of economy of scale and global reach, industry consolidation is likely to occur. The Company is proactively investigating several options to drive consolidation and broaden its geographical reach.

Further growth options exist through the Company's strong technology and domain expertise, which it may leverage into new businesses over time.

## DIRECTORS' INTEREST IN SHARES

As at 30th September, 2000, the Directors of the Company had the following interests in the shares of the Company within the meaning of the Securities (Disclosure of Interests) Ordinance ("the SDI Ordinance") as recorded in the Register of Directors' Interests required to be kept by the Company pursuant to Section 29 of the SDI Ordinance:

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

Name	Type of interest	Attributable interest of the Director	Number of Shares	Total Number of Shares
Mr. Andrew Cho-Fai Yao	<ul style="list-style-type: none"> <li>• Corporate interest held by TN (<i>Note 1</i>)</li> </ul>	deemed interest (indirectly)	245,760,000	
	<ul style="list-style-type: none"> <li>• Corporate interest held by Huge Top (<i>Note 2</i>)</li> </ul>	more than one third (indirectly)	159,811,344	

	• Corporate interest held by VSC BVI (Note 3)	through Huge Top (indirectly)	278,000,000	
	• Corporate interest held by Right Action (Note 4)	100% (directly)	102,400,000	785,971,344
Ms. Miriam Che-Li Yao	• Corporate interest held by TN (Note 1)	deemed interest (indirectly)	245,760,000	
	• Corporate interest held by Huge Top (Note 2)	more than one third (indirectly)	159,811,344	
	• Corporate interest held by VSC BVI (Note 3)	through Huge Top (indirectly)	278,000,000	683,571,344
Mr. Moses Kwok-Tai Tsang	• Corporate interest held by Oboe (Note 5)	through MKT (indirectly)	51,200,000	51,200,000
Mr. Phillip King-Huen Ma	• Corporate interest held by S & S (Note 6)	-	159,344	159,344

### Notes:

1. As at 30th September, 2000, TN Development Limited ("TN") owns 245,760,000 Shares. 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 issued Shares 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.

2. As at 30th September, 2000, Huge Top Industrial Ltd. ("Huge Top") owns 159,811,344 Shares. 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 comprises Andrew Cho-Fai Yao and Miriam Che-Li Yao. These interests of the aforesaid Directors in the issued Shares of the Company were corporate interests.

3. As at 30th September, 2000, VSC BVI owns 278,000,000 Shares and Huge Top owns approximately 57.59% of the issued share capital of Van Shung Chong Holdings Limited ("VSC"). Andrew Cho-Fai Yao is a director 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 issued Shares of the Company were corporate interests.

4. As at 30th September, 2000, Right Action Offshore Inc. ("Right Action") owns 102,400,000 Shares. 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.

5. As at 30th September, 2000, Oboe Development Trading Limited ("Oboe") owns 51,200,000 Shares. MKT Holdings (Cayman Islands) LLC ("MKT") owns the entire issued share capital of Oboe, of which Moses Kwok-Tai Tsang is the sole director. Moses Kwok-Tai Tsang owns the entire issued share capital of MKT, of which he and his wife are the directors. These interests were corporate interests in the Company.

6. As at 30th September, 2000, S & S Management Co. Ltd. ("S & S") owns 159,344 Shares. Philip King-

Huen Ma is deemed to have corporate interests in these 159,344 Shares.

(b) Employee options to purchase Shares from TN:

Name	Shares to be acquired under the employee options
Ms. Drina C. Yue (Note 1)	30,720,000
Mr. Daniel Takuen Shih (Note 1)	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 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 "Share Option Scheme"), the Board of Directors of the Company may, at their discretion, invite any employee of the Company or any of the group companies, including any executive directors, to take up options to subscribe for Shares in the Company. The maximum number of Shares in respect of which options may be granted under the Share Option Scheme may not exceed 10% of the issued share capital of the Company. The scheme became effective upon the listing of the Company's Shares on 20th April, 2000.

Pursuant to the Share Option Scheme, the share options granted to and held by the Directors up to 30th September, 2000 were as follows:

Name	Date of grant	Exercise price per Share	Exercise period	No. of Shares options
Ms. Drina C. Yue	3rd July, 2000	HK\$0.36	1st October, 2001 to 12th April, 2010	2,000,000
Ms. Miriam Che-Li Yao	3rd July, 2000	HK\$0.36	1st October, 2001 to 12th April, 2010	2,500,000

Save as disclosed above, and other than in connection with the group reorganisation scheme prior to the Company's listing of Shares, at no time during the period was the Company or any of the companies comprising the Group 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 debentures of the Company or any other body corporate.

## SHARE OPTIONS SCHEME

Pursuant to the Share Option Scheme, there were 34,800,000 share options granted to and held by the optionees (which includes the options granted to the Directors as disclosed above) up to 30th September, 2000. Details of which are as follows:

No. of share options	Exercise price per Share	Exercise period
34,800,000 (Note 1)	HK\$0.36	1st October, 2001 to 12th April, 2010



*Notes:*

1. An aggregate of 37,300,000 options were granted to the optionees on 3rd July, 2000. Up to 30th September, 2000, 2,500,000 share options have lapsed.

2. Subsequent to 30th September, 2000 and up to the date of this report, 750,000 share options have lapsed.

**SUBSTANTIAL SHAREHOLDERS**

As at 30th September, 2000, 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 are as follows:

Name		Number of shares	Total Number of Shares	Notes
VSC BVI	• directly	278,000,000		
	• indirect deemed interest through TN	245,760,000	523,760,000	1
VSC	• indirectly through VSC BVI	278,000,000		
	• indirect deemed interest through TN	245,760,000	523,760,000	1&2
Huge Top	• directly	159,811,344		
	• indirectly through VSC BVI	278,000,000		
	• indirect deemed interest through TN	245,760,000	683,571,344	1, 2 & 3
TN	• directly	245,760,000	245,760,000	4
Mr. Leroy Lin-Yuen Kung	• indirectly through Grand Bridge	204,800,000	204,800,000	5
Galaface Limited	• indirectly through Grand Bridge	204,800,000	204,800,000	5
Asian Gold Associates Limited	• indirectly through Grand Bridge	204,800,000	204,800,000	5
iMerchants Group Limited	• indirectly through Grand Bridge	204,800,000	204,800,000	5
Grand Bridge Enterprises Limited		204,800,000	204,800,000	5

*Notes:*

1. VSC BVI owns 54% of the share capital of TN and is deemed to be interested in the 245,760,000 Shares held by TN. VSC BVI directly owns 278,000,000 Shares. VSC BVI is therefore interested in an aggregate of 523,760,000 Shares.

2. VSC owns the entire issued share capital of VSC BVI, VSC is therefore deemed to be interested in an aggregate of 523,760,000 Shares.

3. Huge Top is beneficially interested in approximately 57.59% of the issued share capital of VSC as at 30th September, 2000 and is therefore deemed to be interested in the 245,760,000 Shares held by TN and the 278,000,000 Shares held by VSC BVI. Huge Top also directly owns 159,811,344 Shares. Huge Top is therefore interested in an aggregate of 683,571,344 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 204,800,000 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**

As updated and notified by the Company's sponsor, BNP Paribas Peregrine Capital Limited (formerly known as BNP Prime Peregrine Capital Limited) (the Sponsor), as at 30th September, 2000, an associated company of the Sponsor held 2,500,000 shares in the Company, representing approximately 0.17% of the issued share capital of the Company.

Saved as disclosed herein, neither the Sponsor nor its director or employees or associates (as referred to in Note 3 to rule 6.35 of the GEM Listing Rules) had any interests in the securities of the Company, including options or rights to subscribe for such securities.

Pursuant to the agreement entered into between the Company and the Sponsor, the Sponsor will receive a fee for acting as the Company's retained sponsor for the period from 20th April, 2000 to 30th April, 2003.

#### **COMPETING INTERESTS**

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 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, 2000.

#### **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 primary duties of the audit committee are to review the Company's annual reports and quarterly reviews and to provide 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.

On behalf of the Board of Directors  
**DRINA C. YUE**  
Director

Hong Kong, 31st October, 2000