

iSteelAsia.com

iSteelAsia.com Limited

(Incorporated in Bermuda with limited liability)

**INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 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.

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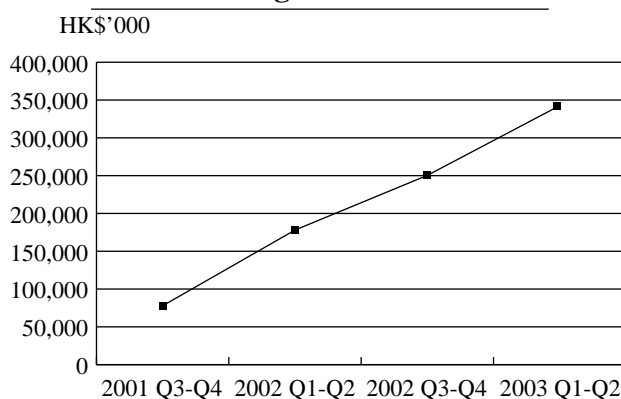
This announcement, for which the directors of iSteelAsia.com Limited (“the Directors”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (“the GEM 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 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

Turnover

Turnover for the six months (“Q1-Q2”) and three months (“Q2”) ended 30th September, 2002 were approximately HK\$343 million and HK\$165 million respectively, representing 92% and 54% increase by comparing the results in the corresponding periods last year, respectively.

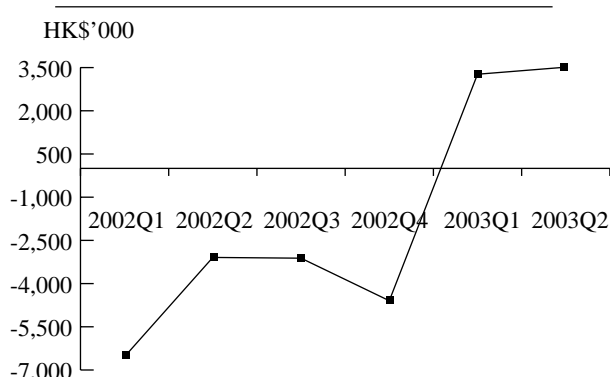
Consecutive growth in turnover



Profit attributable to shareholders

iSteelAsia Group recorded a profit attributable to shareholders of approximately HK\$6.8 million for the six months ended 30th September, 2002 (Profit of approximately HK\$3.3 million for Q1, and profit of approximately HK\$3.5 million for Q2).

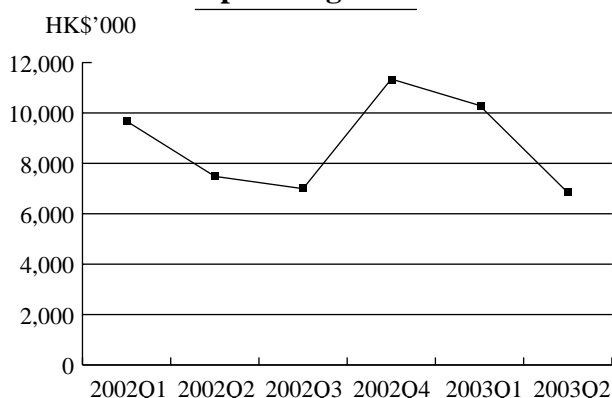
Profit attributable to shareholders



Operating cost

iSteelAsia Group's Operating Cost has been kept at a constant level at approximately HK\$17.1 million for the six months ended 30th September, 2002 amid the continuous expansion of the sales distribution network for steel in China.

Operating Cost



RESULTS

The Board of Directors of iSteelAsia.com Limited (“the Company” or “iSteelAsia”) has the pleasure of presenting the unaudited consolidated financial statements of the Company and its subsidiaries (together “iSteelAsia Group”) for the six months and three months ended 30th September, 2002 together with the comparative unaudited figures for the corresponding periods in 2001, as follows:

Consolidated Income Statement

	Note	For the six months ended 30th September,		For the three months ended 30th September,	
		2002 HK\$'000 (Unaudited)	2001 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)	2001 HK\$'000 (Unaudited)
Turnover					
— Sales		335,359	173,675	162,716	104,264
— Commission		6,941	4,362	2,179	2,981
— Dividend income		311	—	124	—
	3	342,611	178,037	165,019	107,245
Cost of inventories sold		(315,306)	(169,145)	(152,462)	(101,994)
Staff costs		(6,365)	(9,416)	(3,216)	(3,941)
Research and development expenses		—	(699)	—	(350)
Marketing and branding expenses		(31)	(207)	(16)	(50)
Amortisation of website development costs		(650)	(646)	(378)	(374)
Depreciation of furniture and equipment		(402)	(360)	(226)	(176)
Impairment loss of long-term investment		(688)	—	(344)	—
Other operating expenses		(9,003)	(5,833)	(2,661)	(2,595)
Profit (Loss) from operations		10,166	(8,269)	5,716	(2,235)
Interest income		539	1,477	280	636
Interest expense		(2,867)	(2,774)	(1,587)	(1,468)
Profit (Loss) before taxation		7,838	(9,566)	4,409	(3,067)
Taxation	4	(588)	(62)	(581)	(25)
Profit (Loss) before minority interests		7,250	(9,628)	3,828	(3,092)
Minority interests		(467)	—	(314)	—
Profit (Loss) attributable to shareholders		6,783	(9,628)	3,514	(3,092)
Earnings (Loss) per share	5				
— Basic		0.43 cents	(0.65) cents	0.22 cents	(0.20) cents
— Diluted		0.43 cents	N/A	0.22 cents	N/A

Condensed Consolidated Balance Sheet

	<i>Note</i>	As at 30th September, 2002 <i>HK\$'000</i> (Unaudited)	As At 31st March, 2002 <i>HK\$'000</i> (Audited)
Non-current assets			
Furniture and equipment		2,951	2,306
Website development costs		1,546	2,165
Long-term investments		23,915	28,201
		<u>28,412</u>	<u>32,672</u>
Current assets			
Inventories		97,284	63,511
Prepayments and deposits		53,229	9,344
Trade and bills receivable	7	29,630	72,441
Cash and bank deposits		62,424	49,058
		<u>242,567</u>	<u>194,354</u>
Current liabilities			
Short-term bank borrowings		(47,132)	(64,335)
Trade and bills payable	8	(23,476)	(336)
Due to related companies		(154,529)	(140,031)
Other payable		(8,437)	(5,558)
Accruals		(4,372)	(3,289)
Receipts in advance		(18,015)	(2,111)
		<u>(255,961)</u>	<u>(215,660)</u>
Net current liabilities		<u>(13,394)</u>	<u>(21,306)</u>
Total assets less current liabilities		15,018	11,366
Minority interests		(1,767)	(1,300)
Net assets		<u>13,251</u>	<u>10,066</u>
Capital and reserves			
Share capital		156,450	156,450
Reserves		(143,199)	(146,384)
Shareholders' equity		<u>13,251</u>	<u>10,066</u>

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 adjustments <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance, 1st April, 2001	145,450	—	2,700	—	—	(124,436)	23,714
Issue of share	11,000	—	—	—	—	—	11,000
Premium on issue of shares	—	11,550	—	—	—	—	11,550
Share issuance expenses	—	(230)	—	—	—	—	(230)
Net loss for the period	—	—	—	—	—	(9,628)	(9,628)
Translation adjustments	—	—	—	—	56	—	56
Balance, 30th September, 2001	156,450	11,320	2,700	—	56	(134,064)	36,462
Share issuance expenses	—	(221)	—	—	—	—	(221)
Net loss for the period	—	—	—	—	—	(7,712)	(7,712)
Translation adjustments	—	—	—	—	89	—	89
Deficit on revaluation of long-term investment	—	—	—	(18,552)	—	—	(18,552)
Balance, 31st March, 2002	156,450	11,099	2,700	(18,552)	145	(141,776)	10,066
Net profit for the period	—	—	—	—	—	6,783	6,783
Deficit on revaluation of long-term investment	—	—	—	(3,598)	—	—	(3,598)
Balance, 30th September, 2002	<u>156,450</u>	<u>11,099</u>	<u>2,700</u>	<u>(22,150)</u>	<u>145</u>	<u>(134,993)</u>	<u>13,251</u>

Condensed Consolidated Cash Flow Statement

	For the six months ended 30th September,	
	2002 HK\$'000 (Unaudited)	2001 HK\$'000 (Unaudited)
Net cash generated from (used in) operating activities	30,802	(30,831)
Net cash (used in) generated from investing activities	(233)	442
Net cash (used in) generated from financing activities	(17,203)	62,593
Net increase in cash and cash equivalents	13,366	32,204
Cash and cash equivalents at 1st April	49,058	28,516
Cash and cash equivalents at 30th September	62,424	60,720

Notes:

1. Basis of preparation

The unaudited financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice and accounting principles generally accepted in Hong Kong. They have been prepared under historical cost convention except for long-term investments, which are carried at fair value.

2. Principles of consolidation

The unaudited consolidated financial statements include the accounts of 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, (ii) commission from procurement and online steel trading services and (iii) dividend income from long-term investment.

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

a. *Primary segment*

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 segment is as follows:

	For the six months ended 30th September,							
	Steel trading		Procurement services		Investment holding		Total	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000 (Unaudited)	2001 HK\$'000 (Unaudited)
Turnover								
Total turnover	<u>335,359</u>	<u>173,675</u>	<u>6,941</u>	<u>4,362</u>	<u>311</u>	<u>—</u>	<u>342,611</u>	<u>178,037</u>
Operating results								
Segment results	<u>15,509</u>	<u>(2,505)</u>	<u>(4,604)</u>	<u>(5,018)</u>	<u>(404)</u>	<u>(1)</u>	<u>10,501</u>	<u>(7,524)</u>
Unallocated corporate expenses							<u>(335)</u>	<u>(745)</u>
Profit (Loss) from operations							<u>10,166</u>	<u>(8,269)</u>
Interest income							<u>539</u>	<u>1,477</u>
Interest expense							<u>(2,867)</u>	<u>(2,774)</u>
Taxation							<u>(588)</u>	<u>(62)</u>
Minority interests							<u>(467)</u>	<u>—</u>
Profit (Loss) attributable to shareholders							<u>6,783</u>	<u>(9,628)</u>
Other information								
Total assets —								
Segment assets	<u>173,929</u>	<u>62,650</u>	<u>1,924</u>	<u>8,352</u>	<u>23,915</u>	<u>48,476</u>	<u>199,768</u>	<u>119,478</u>
Unallocated assets							<u>71,211</u>	<u>63,198</u>
							<u>270,979</u>	<u>182,676</u>
Total liabilities —								
Segment liabilities	<u>246,023</u>	<u>83,066</u>	<u>—</u>	<u>1,582</u>	<u>—</u>	<u>—</u>	<u>246,023</u>	<u>84,648</u>
Unallocated liabilities							<u>9,938</u>	<u>61,381</u>
Minority interests							<u>1,767</u>	<u>186</u>
							<u>257,728</u>	<u>146,215</u>
Capital expenditures —								
Segment capital expenditures	<u>1,084</u>	<u>41</u>	<u>31</u>	<u>4</u>	<u>—</u>	<u>23,502</u>	<u>1,115</u>	<u>23,547</u>
Depreciation and amortisation —								
Segment depreciation and amortisation	<u>261</u>	<u>208</u>	<u>791</u>	<u>797</u>	<u>—</u>	<u>—</u>	<u>1,052</u>	<u>1,005</u>
Significant non-cash expenditures —								
Segment non-cash expenditures (other than depreciation and amortisation)	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>688</u>	<u>—</u>	<u>688</u>	<u>—</u>

b. *Secondary segment*

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, location of sellers for online commission income and location of the long-term investment for dividend income. An analysis by geographical segment is as follows:

	For the six months ended 30th September,							
	Hong Kong		Mainland China		Others		Total	
	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
						(Unaudited)	(Unaudited)	
Turnover	<u>50,251</u>	<u>83,766</u>	<u>291,967</u>	<u>90,899</u>	<u>393</u>	<u>3,372</u>	<u>342,611</u>	<u>178,037</u>
Profit (Loss) from operations	<u>(4,551)</u>	<u>(6,818)</u>	<u>20,279</u>	<u>1,692</u>	<u>(5,562)</u>	<u>(3,143)</u>	<u>10,166</u>	<u>(8,269)</u>
Total assets	<u>82,926</u>	<u>129,917</u>	<u>162,482</u>	<u>21,826</u>	<u>25,571</u>	<u>30,933</u>	<u>270,979</u>	<u>182,676</u>
Capital expenditures	<u>68</u>	<u>22,583</u>	<u>1,033</u>	<u>8</u>	<u>14</u>	<u>956</u>	<u>1,115</u>	<u>23,547</u>

4. Taxation

Taxation consisted of:

	For the six months ended 30th September,		For the three months ended 30th September,	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Mainland China enterprise income tax	<u>588</u>	<u>62</u>	<u>581</u>	<u>25</u>

No provision for Hong Kong profits tax has been provided as iSteelAsia Group had no assessable profit during the six months and three months ended 30th September, 2002 (2001 — Nil). Subsidiaries operated in Mainland China are subject to Mainland China enterprise income tax at the rates of 15% — 33% (2001 — 33%).

5. Earnings (Loss) per share

The calculations of basic earnings (loss) 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 (2001 — loss of HK\$9,628,000) and HK\$3,514,000 (2001 — loss of HK\$3,092,000) respectively and on the weighted average number of 1,564,500,000 (2001 — 1,489,964,481) shares and 1,564,500,000 (2001 — 1,525,043,478) shares in issue during the six months and three months ended 30th September, 2002 respectively.

The calculation 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 effects of all dilutive potential shares of 29,922,131 and 52,150,000 shares in respect of outstanding warrants respectively.

There were no potential shares outstanding during the six months and three months ended 30th September, 2001 and thus no dilutive loss per share were presented.

6. Dividends

The Directors do not recommend the payment of an interim dividend for the six months ended 30th September, 2002.

7. Trade and bills receivable

Trade and bills receivable (consolidated) consisted of:

	As at 30th September, 2002 HK\$'000 (Unaudited)	As at 31st March, 2002 HK\$'000 (Audited)
Accounts and bills receivable	30,663	73,474
<i>Less:</i> Provision for bad and doubtful receivable	<u>(1,033)</u>	<u>(1,033)</u>
	<u>29,630</u>	<u>72,441</u>

iSteelAsia Group normally grants its customers credit periods ranging from 30 days to 90 days. Ageing analysis of trade and bills receivable (consolidated) is as follows:

	As at 30th September, 2002 HK\$'000 (Unaudited)	As at 31st March, 2002 HK\$'000 (Audited)
0 to 90 days	25,022	63,838
91 to 180 days	3,527	8,195
181 to 270 days	325	142
271 to 360 days	1,789	300
361 to 450 days	<u>—</u>	<u>999</u>
	<u>30,663</u>	<u>73,474</u>

8. Trade and bills payable

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

	As at 30th September, 2002 <i>HK\$'000</i> (Unaudited)	As at 31st March, 2002 <i>HK\$'000</i> (Audited)
0 to 90 days	<u>23,476</u>	<u>336</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,	
	2002 <i>HK\$'000</i> (Unaudited)	2001 <i>HK\$'000</i> (Unaudited)
Van Shung Chong Hong Limited (i)		
— Purchases made by iSteelAsia Group	113,818	76,404
— Commission from procurement services earned by iSteelAsia Group	1,117	743
— Interest charged to iSteelAsia Group	2,073	481
— Administrative fees charged to iSteelAsia Group	180	180
CFY Enterprises Limited (i)		
— Rental expenses charged to iSteelAsia Group	300	510
— Rates, management fees and utilities charged to iSteelAsia Group	44	115
iMerchants Limited (ii)		
— Website maintenance costs charged to iSteelAsia Group	<u>—</u>	<u>842</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.
- (ii) iMerchants Limited is a subsidiary of iMerchants Group Limited, the holding company of a substantial shareholder of the Company.

BUSINESS REVIEW

Financial and Business Performance

The Board of Directors is pleased to report iSteelAsia Group's interim results for the financial year ending 31st March, 2003. For the six months and three months ended 30th September, 2002, iSteelAsia Group recorded a turnover of approximately HK\$343 million and HK\$165 million respectively, representing a 92% and 54% increase respectively by comparing the results in the corresponding periods last year. More significantly, iSteelAsia Group is delighted to announce that the profit attributable to shareholders for the six months ended 30th September, 2002 was approximately HK\$6,783,000, an addition of HK\$3,514,000 from Q1 of this financial year. These two consecutive profitable quarters constituted a turnaround by comparing the net loss of approximately HK\$9,628,000 for the corresponding period last year. The increases in turnover and profitability were two folds. On the macro side, the People's Republic of China ("PRC") economy with over 7% Gross Domestic Product (GDP) growth is performing exceptionally well as compared to the global economy and steel demands were directly related to the growth in GDP. As such, iSteelAsia's strategy of focusing China market had been rewarded with the greatest return. On the operation side, iSteelAsia Group had successfully developed a distribution network for steel in China and established a stable customers base to bring in sufficient revenue in excess of the breakeven point. As such, iSteelAsia Group achieved record high earnings before interest and tax ("EBIT") for the six months ended 30th September, 2002 of approximately HK\$10,166,000.

For the six months ended 30th September, 2002, total cost excluding cost of inventories sold and finance cost (the "Operating Cost") was approximately HK\$17,139,000 which is at a similar level as compared to the Operating Cost of approximately HK\$17,161,000 for the same period last year. However, during the current period, iSteelAsia Group had expanded to include its physical presence in 2 more locations, namely, Guangzhou and Tianjin. Headcount was also increased from 50 to 72. iSteelAsia Group is encouraged by its effectiveness towards cost control. iSteelAsia Group will continue to expand the current steel trading network by optimising its cost structure with the goal to further increase the operational effectiveness through economies of scale.

Over the past year, iSteelAsia Group continued to strive for its stated mission to become the dominant steel trading network and be one of the most efficient, cost effective distributor and value-added service provider throughout the entire metal ecosystem in Asia especially in China. In order to increase the effectiveness of the whole organisation, iSteelAsia Group had changed its structure to a more horizontal organisation with fewer reporting layers and thus more accountability per staff. Subsequently, we notice that the communication channel has greatly improved which helps to facilitate our dissemination of visions across the whole organisation, which include service attitudes towards customers and internal control systems. In the past 16 months, we had strategically established a total of 6 sales offices covering the most densely populated cities like Beijing, Shanghai, Guangzhou, Tianjin, Shenzhen and Chongqing. iSteelAsia Group was able to successfully utilise this network and sales were gradually increased over the past 12 months. This sales distribution network greatly enhances our competitive competencies.

In order to increase the operational efficiency, iSteelAsia Group had been implementing a resource redeployment programme since 2000 with a goal to locate our customer support function staff geographically closer to our customers hence providing better communications, more prompt response to customers leading to better customer services. As such, more than 70% of our workforce was located in China where a majority of our customers are located. In this way, we are able to provide more value-added services in a more flexible and responsive ways at more competitive costs.

As a unique characteristic of any trading business, iSteelAsia Group is a steel trading and distribution company with low asset base. Sales were mainly conducted with payment terms of cash on delivery with advanced deposits. Credit was only granted to customers with whom iSteelAsia Group already had long business relationships and sound financial backings. As at 30th September, 2002, iSteelAsia Group recorded amounts of approximately HK\$4,467,000 due from Boto Company Limited (“Boto”). The balance from Boto accounted for approximately 57% of iSteelAsia Group’s audited net tangible assets as at 31st March, 2002. Boto is a customer of iSteelAsia Group 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 iSteelAsia Group and settlements of the accounts receivable 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 payment period agreed with the customers. The customer 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, iSteelAsia Group experienced no bad debt from any customer nor iSteelAsia Group considered that there was any material collectibility problem from the customer.

During the period under review, the actual business progress of iSteelAsia Group was generally in line with the business objectives and iSteelAsia Group continued to enjoy a reputation representing quality and value added through its persistent marketing efforts as stated in the prospectus dated 14th April, 2000. As stated in iSteelAsia Group’s business objectives, the long-term objective of the traditional trading operation is to serve customers who are not ready for an online trading platform or those who have special requirements that require a high degree of personal assistance. iSteelAsia Group believed that the traditional trading operation has helped to expand the export market for the PRC’s mills by actively marketing through its network. iSteelAsia Group had and will continue to organise technical seminars on behalf of PRC steel industry. During the period under review, iSteelAsia Group has successfully expanded its customer base in other parts of the PRC outside Southern China region. Although the market sentiment on Internet was not very positive, we will continue to revamp/enhance our website to finesse the quality of available service in the most cost efficient way. iSteelAsia Group continued to fulfill iSteelAsia Group’s business objectives with an aim to provide value-added services to our steel industry participants.

iSteelAsia Group still believed in the tremendous values brought in by the Internet. Although the development of the Internet industry is slower than expected, iSteelAsia Group continues to provide online services to customers. During the six months ended 30th September, 2002, iSteelAsia Group’s revenue derived from online steel trading business was minimal. However, the values provided to our traditional steel trading operation were enormous. The platform was able to help iSteelAsia Group develop a more accurate customer need profile enabling iSteelAsia Group to offer more effective services to our customers. In addition, the platform helps to build community for our steel industry participants by using it as a means to exchange steel market and industry information.

USE OF PROCEEDS

Over the period from 20th April, 2000 (date of listing) to 30th September, 2002, iSteelAsia Group has substantially utilised the proceeds from the initial public offering of its new shares on GEM. The use of proceeds was generally in line with the information as set out in the section headed “USE OF PROCEEDS” in the prospectus dated 14th April, 2000.

FINANCIAL RESOURCES AND LIQUIDITY

As at 30th September, 2002, iSteelAsia Group's aggregate short-term bank borrowings, comprising trust receipts bank loans and short-term working capital bank loans, were approximately HK\$47,132,000 (31st March, 2002 — HK\$64,335,000). The short-term working capital bank loans amounted to HK\$8,505,000 (31st March, 2002 — HK\$11,580,000) with interest rates ranging from 5.64%-5.84% per annum (31st March, 2002 — 4.35%-5.84% per annum). As at 30th September, 2002, the gearing ratio (short-term bank borrowings divided by shareholders' equity) was approximately 3.56 (31st March, 2002 — 6.39). As at 30th September, 2002, iSteelAsia Group had aggregated banking facilities of approximately HK\$98,000,000 (31st March, 2002 — HK\$91,180,000) from several banks for overdrafts, loans, and trade financing. Unused facilities as at the same date amounted to approximately HK\$3,525,000 (31st March, 2002 — HK\$8,582,000). These facilities were secured by (a) corporate guarantees provided by iSteelAsia and/or (b) iSteelAsia Group's inventories held under trust receipts bank loan arrangement.

FOREIGN CURRENCY EXPOSURE

The foreign currency exposure of iSteelAsia Group is mainly driven by its business operations. The sales receipts are collected in Renminbi, United States dollars and Hong Kong dollars depending on the locations of the customers. On the other hand, the steel products purchases are mainly denominated in United States dollars. Therefore, with a minimal fluctuation in exchange rates between United States dollars with Renminbi and Hong Kong dollars, iSteelAsia Group considers the foreign currency exposure is minimal during the period under review. iSteelAsia Group will continue to exert efforts in managing its potential currency risk profile in the future.

OUTLOOK

The global economy continues to be overshadowed by events happening in various political 'hot spots', and is currently in disarray with no logical trends. Nevertheless, with the recent trend of decreasing low interest rate in the United States dollar, which is predominantly iSteelAsia Group's operating currency, iSteelAsia Group as a steel distributor is well positioned to capitalise this unique opportunity. More specifically, on the steel industry outlook, according to International Iron and Steel Institute (IISI), the projected global GDP is 1.7 percent growth in 2002 while the PRC's domestic GDP is estimated to rise an impressive 7.5 percent in 2002. Despite being the largest steel producer of the world, China is also a net importer of steel with more than half of the global steel consumption growth attributed to China. Finished steel consumption in China is estimated to increase by 25 million tonnes (or 14.8 percent) in 2002 to 195 million tonnes and by 20 million tonnes (or 10.3 percent) in 2003 to 215 million tonnes. China has increased immensely its share of global steel consumption from 87 million tonnes (or 13.5 percent) in 1995 to a projected 215 million tonnes (or 25.6 percent) in 2003.

With our core strategy of focusing China as our major market, iSteelAsia Group is optimistic about the future outlook of its business model. Capitalising on its extensive local market coverage, brandname and strong strategic partnerships established over the past two years, iSteelAsia Group will focus as an aggregator and distributor for the growing markets in Asia, particularly China.

The management is very optimistic with the outlook of PRC market and hence the future prospect of iSteelAsia Group. To achieve iSteelAsia Group's 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', iSteelAsia Group will continue to prudently explore opportunities to grow organically and also through merger and acquisition.

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 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 30th September, 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)	102,400,000	20,480,000
		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)	301,026,000	60,205,200
		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\$0.10 each in the Company at a subscription price of HK\$0.10 each (subject to adjustment) and are exercisable between 18th June, 2002 and 17th June, 2005.
2. As at 30th September, 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 30th September, 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 30th September, 2002, VSC BVI owns 301,026,000 Shares and 60,205,200 Warrants and Huge Top owns approximately 57.64% 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 30th September, 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 30th September, 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	Exercise 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 30th September, 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 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 six months ended 30th September, 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 interim results announcement, 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 30th September, 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.

Share Option Scheme

Movements of employee share options pursuant to the Old Scheme during the six months ended 30th September, 2002 were as follows:

Date of grant	Exercise period	Subscription price per Share	Number of share options			End of period '000
			Beginning of period '000	Granted during the period '000	Lapsed during the period '000	
<i>Directors</i>						
3rd July, 2000	1st October, 2001 to 12th April, 2010	HK\$0.360	4,500	—	—	4,500
7th November, 2000	8th November, 2001 to 12th April, 2010	HK\$0.485	15,000	—	—	15,000
<i>Employees</i>						
3rd July, 2000	1st October, 2001 to 12th April, 2010	HK\$0.360	17,100	—	(250)	16,850
7th November, 2000	8th November, 2001 to 12th April, 2010	HK\$0.485	56,650	—	(500)	56,150
			93,250	—	(750)	92,500
			93,250	—	(750)	92,500

Notes:

1. Details of the options granted to the Directors are set out in the section headed “Directors’ rights to acquire shares or debentures”.
2. The lapsed options were due to cessation of employment of participants with iSteelAsia Group.
3. No option was granted, exercised or cancelled during the period.

SUBSTANTIAL SHAREHOLDERS

As at 30th September, 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 57.64% of the issued share capital of VSC as at 30th September, 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 30th September, 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 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 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 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 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 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 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 six months ended 30th September, 2002.

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. Yeung Kwok Keung and Mr. Philip King Huen Ma. These unaudited consolidated interim financial statements for the six months and three months ended 30th September, 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, 11th November, 2002