

iSteelAsia.com Limited



*iSteelAsia.com*





## **FIRST QUARTER RESULTS FOR THE THREE MONTHS ENDED 30TH JUNE, 2001**

### **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (“THE STOCK EXCHANGE”)**

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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

- The Group recorded a turnover of approximately HK\$70,792,000 for the three months ended 30th June, 2001, representing an increase of 26% and 65% when compared to the three months ended 30th June, 2000 and 31st March, 2001, respectively.
- Loss attributable to shareholders shows encouraging improvement. By comparing FY2001Q1 against FY2000Q1, the loss has decreased by over 80% to approximately HK\$6.5 million.
- On the cost side, through operations relocation and resources realignment, the Group has managed to lower the operating expenses before amortisation and depreciation to approximately HK\$9.2 million for FY2001Q1, representing a 76% decrease as compared to FY2000Q1. Effort in ongoing cost management and effective resource allocation continues to be a major focus for the Group's operation.
- From an operational perspective, iSteelAsia.com website achieved growth in terms of membership and deal postings. Membership has exceeded 4,000 and deal postings have reached over 1,000. These represented 162% and 860% growth, respectively, since the listing of the Company in April 2000. In addition, active dealing members have attained an over 600% growth since the listing of the Company in April 2000.
- On 3rd August, 2001, the Group announced its completion to acquire approximately 0.23% of AcrossAsia Multimedia Limited ("AAM"), another GEM-listed company. The Directors believe that the acquisition is the first step toward forming a strategic relationship with AAM.

## RESULTS

The Board of Directors of iSteelAsia.com Limited ("the Company") has the pleasure of presenting the unaudited consolidated results of the Company and its subsidiaries (together "the Group") for the three months ended 30th June, 2001, together with the comparative unaudited figures for the corresponding period in 2000, as follows:

		<b>For the three months ended 30th June,</b>	
	<i>Note</i>	<b>2001 HK\$'000</b>	2000 <i>HK\$'000</i>
Turnover			
— Sales		<b>69,047</b>	53,911
— Commission		<b>1,745</b>	2,187
	<i>1</i>	<b>70,792</b>	56,098
Cost of inventories sold		<b>(67,151)</b>	(52,292)
Staff costs		<b>(5,475)</b>	(8,463)
Research and development expenses		<b>(349)</b>	(9,226)
Marketing and branding expenses		<b>(157)</b>	(8,250)
Amortisation of website development costs		<b>(272)</b>	(429)
Write off of website development costs		<b>—</b>	(4,915)
Depreciation of furniture and equipment		<b>(184)</b>	(67)
Other operating expenses		<b>(3,238)</b>	(6,992)
Loss from operations		<b>(6,034)</b>	(34,536)
Interest income		<b>841</b>	1,520
Interest expense		<b>(1,306)</b>	(110)
Loss before taxation		<b>(6,499)</b>	(33,126)
Taxation	<i>2</i>	<b>(37)</b>	(224)
Loss attributable to shareholders		<b>(6,536)</b>	(33,350)
Loss per share — Basic	<i>3</i>	<b>(0.45) cents</b>	(2.35) cents



Notes:

**1. Turnover**

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

**2. Taxation**

Taxation consisted of:

	<b>For the three months ended 30th June,</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Current taxation		
— Hong Kong profits tax	—	224
— Mainland China enterprise income tax	<b>37</b>	—
	<b>37</b>	<b>224</b>

No provision for Hong Kong profits tax has been provided as the Group had no assessable profit during the three months ended 30th June, 2001 (2000 - Hong Kong profits tax was provided at the rate of 16% on the estimated assessable profit arising in or derived from Hong Kong). A subsidiary operated in the Mainland China is subject to Mainland China enterprise income tax at the rate of 33% (2000 - Nil).

**3. Loss per share**

The calculations of basic loss per share for the three months ended 30th June, 2001 were based on the unaudited consolidated loss attributable to shareholders of approximately HK\$6,536,000 (2000 - HK\$33,350,000) and on the weighted average number of 1,454,500,000 (2000 - 1,419,983,516) shares in issue during the three months ended 30th June, 2001.

Diluted loss per share for the three months ended 30th June, 2001 and the three months ended 30th June, 2000 are not presented because the exercise of the share options granted by the Company would have an anti-dilutive effect.

**4. Dividends**

The Directors do not recommend the payment of an interim dividend for the three months ended 30th June, 2001.

**BUSINESS REVIEW**

**Financial Performance**

The Board of Directors is pleased to report the Group's first quarter results for the financial year ending 31st March, 2002. For the three months ended 30th June, 2001 ("FY2001Q1"), the Group recorded a turnover of approximately HK\$70,792,000, representing both 26% and 65% increase by comparing to the three months ended 30th June, 2000 ("FY2000Q1") and 31st March, 2001 ("FY2000Q4"), respectively. Loss attributable to shareholders decreased by more than 80% to approximately HK\$6.5 million as compared to FY2000Q1, which illustrate consistent improvement in the Group's overall operation.

As stated as its core business, the Group continues to focus developing its steel trading capability both offline and online. The increase in turnover is mainly due to a strong growth in turnover from the offline steel trading operation in FY2001Q1, which is being fuelled by higher demand for white goods, durable goods (e.g. cars), housing, and infrastructure projects in the Mainland China. The revenue from offline steel trading operation increased by 28% to approximately HK\$69,745,000 by comparing FY2001Q1 against FY2000Q1. On the online market place, transactions volume increased 9.6% to approximately HK\$422,547,000. However, commission paid to the Group as a result of transactions concluded over the Group's online market place decreased 29% to approximately HK\$1,047,000. This was mainly due to different mix of products transacted through iSteelAsia.com website in these periods. For FY2001Q1, products transacted were mainly slabs, which are low-end products while high-value steel sheet in coils or steel rebars were the main products composition in FY2000Q1. According to our published commission rates, the average commission rate for the low-end products was only around 0.2% on the value of trade transaction completed.

On the cost side, the Group has undergone a very comprehensive re-allocation of resource for a more efficient utilisation. The management has decided to take a more focused approach in serving suppliers and users within the Mainland China market. This has resulted in a more extensive coverage of individual steel mills and end users. As a result, the Group is able to control the operating expenses before amortisation and depreciation at approximately HK\$9.2 million, represented a 76% decrease by comparing the results in FY2000Q1. In fact, the headcount of the Group has remained around 60 people, mostly based in the Mainland China. With a deeper analysis, both the Group's research and development expenses as well as marketing and branding expenses decrease significantly by over 95% to approximately HK\$349,000 and HK\$157,000, respectively, with no adverse impact to the Group's business as shown by the continuous growth in business. This result is achieved as a fruit of the Group's tremendous efforts invested during the first 18 months of the Group's operations. In addition, compensation packages of the senior management have also been restructured to be more a function of the Group's performance. As such, monthly salaries of two executive directors and several senior executives have been reduced by over 30% after 31st March, 2001.

Reaping the fruit of the Group's effort as above, the operational statistics achieved an impressive growth in terms of membership and deal postings. Membership has exceeded 4,000 and deal postings have reached over 1,000 representing 162% and 860% growth, respectively, since the listing of the Company in April 2000. In addition, active dealing members have attained an over 600% growth since the listing of the Company in April 2000.

Stemcor Holdings Limited ("Stemcor") has turned in an up to expectation year with an audited profit attributable to shareholders of approximately £3,820,000 for the year ended 31st December, 2000. As such, the Group's investment in Stemcor represents approximately 3.5% of the issued share capital of Stemcor. During FY2001Q1, Stemcor has transacted over 258,000 tonnes of steel products on iSteelAsia.com website giving the Group an income of approximately US\$91,000.

### **Industry overview**

With the 301 initiative in the US, the steel industry remains tough with over-capacity problems faced by many Asian steel producing countries. Steel prices have fallen dramatically in the past 12 months. Amid this global problem, the Company's management has identified the Mainland China as a key country with the highest potential growth. With the imminent accession to World Trade Organisation ("WTO") and the successful bid to host the 2008 Olympic Games in Beijing, the Company is confident that steel demands in the Mainland China would remain robust in the coming years. The Group has established 3 representative offices in major cities of the Mainland China, namely Beijing, Shanghai and Guangzhou, and has planned to open more within the year. With the hosting of 2008 Olympic Games in Beijing, the Group believes that there will be healthy growth in infrastructure constructions in cities around Beijing and thus ample business opportunities exist for the Group to provide both online/offline steel trading services.

### **Building up strategic relationship with AAM**

On 3rd August, 2001, the Group announced its completion to acquire approximately 0.23% of AAM, a company listed on GEM of the Stock Exchange. The consideration was satisfied by issuance of 110,000,000 new shares of the Company at an issue price of HK\$0.205 per share. AAM is involved in the technology sector, including broadband access, e-commerce, IT services and Internet solutions, and its initial management shareholders and certain other shareholders have various business contacts in Indonesia, the Mainland China and other parts of Asia. The Directors believe that the acquisition is the first step toward forming a strategic relationship with AAM who is very strong on the hardware side of the e-commerce sector. Since both companies are involved in complementary aspects of Internet related business, the Group hopes to utilise this strategic relationship to further develop new business initiatives. In addition, the Group firmly believes that although the current perception of Internet remains premature, Internet will ultimately be a very useful tool to eliminate inefficiency in the steel trading industry and thus will create value to the supply chain participants.

### **OUTLOOK**

With a very focused goal of path to profitability, the Group is cultivating the offline steel trading business to generate stickiness within the industry, while at the same time continues to develop the online steel trading business through enhancements. With the bursting of the "dot com bubble", investors are now more cautious in investing in technology companies. This will indirectly slow down the development of the "B2B" e-commerce market. To become a successful steel trading vortal, the Group's goal to provide a "one stop shop" value proposition is conditional on the Internet readiness of other value-added service providers like banks, insurances, surveyors

and logistic vendors. The Group will work closely with these value-added service providers to provide the greatest values to our members. In addition, the Group believes that the Mainland China will be the growth engine for the region, and the Group will continue to expand the market in the Mainland China capitalising on its forthcoming accession to WTO and the successful bid to host the 2008 Olympic Games in Beijing.

## DIRECTORS' INTEREST IN SHARES

As at 30th June, 2001, 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

Name	Type of interest	Attributable interest to the Director	Number of Shares	Total number of Shares
Mr. Andrew Cho Fai Yao	— Corporate interest held by TN (Note 1)	deemed interest (indirectly)	232,163,600	
	— 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	
	— Corporate interest held by Right Action (Note 4)	100% (directly)	102,400,000	772,374,944
Ms. Miriam Che Li Yao	— Corporate interest held by TN (Note 1)	deemed interest (indirectly)	232,163,600	
	— 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	669,974,944
Mr. Philip King Huen Ma	— Corporate interest held by S & S (Note 5)	—	159,324	159,324

#### Notes:

- As at 30th June, 2001, TN Development Limited ("TN") owns 232,163,600 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.

- As at 30th June, 2001, 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 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.
- As at 30th June, 2001, 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 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 issued Shares of the Company were corporate interests.

4. As at 30th June, 2001, 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 June, 2001, S & S Management Co. Ltd. ("S & S") owns 159,324 Shares. Philip King Huen Ma is deemed to be interested in these 159,324 Shares.

**(b) Employee options to purchase Shares from TN:**

<b>Name</b>	<b>Shares to be acquired under the employee options</b>
Ms. Drina C. Yue ( <i>Note 1</i> )	30,720,000
Mr. Daniel Takuen Shih ( <i>Note 1</i> )	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 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 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 subscription price will be determined by the Company's Board of Directors and will be the highest of (i) the nominal value of the Shares, (ii) the quoted closing price of the Company's Shares on the trade day immediately preceding the date of offer of the options, and (iii) the average of the quoted closing prices of the Company's Shares on the five trading days immediately preceding the date of offer of the options. The scheme became effective upon the listing of the Company's Shares on 20th April, 2000.

Pursuant to the Share Option Scheme of the Company, the share options granted to and held by the Directors up to 30th June, 2001 were as follows:

<b>Name</b>	<b>Date of grant</b>	<b>Exercise price per Share</b>	<b>Exercise period</b>	<b>No. of shares options</b>
Ms. Drina C. Yue	3rd July, 2000	HK\$0.360	1st October, 2001 to 12th April, 2010	2,000,000
	7th November, 2000	HK\$0.485	8th November, 2001 to 12th April, 2010	5,000,000
Ms. Miriam Che Li Yao	3rd July, 2000	HK\$0.360	1st October, 2001 to 12th April, 2010	2,500,000
	7th November, 2000	HK\$0.485	8th November, 2001 to 12th April, 2010	5,000,000
Mr. Andrew Cho Fai Yao	7th November, 2000	HK\$0.485	8th November, 2001 to 12th April, 2010	5,000,000

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 June, 2001, 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 30th June, 2001, 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	278,000,000		
	— indirect deemed interest through TN	232,163,600	510,163,600	1
VSC	— indirectly through VSC BVI	278,000,000		
	— indirect deemed interest through TN	232,163,600	510,163,600	1 & 2
Huge Top	— directly	159,811,344		
	— indirectly through VSC BVI	278,000,000		
	— indirect deemed interest through TN	232,163,600	669,974,944	1, 2 & 3
TN	— directly	232,163,600	232,163,600	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	— directly	204,800,000	204,800,000	5

### Notes:

- VSC BVI owns 54% of the share capital of TN and is deemed to be interested in the 232,163,600 Shares held by TN. VSC BVI directly owns 278,000,000 Shares. VSC BVI is therefore interested in an aggregate of 510,163,600 Shares.
- VSC owns the entire issued share capital of VSC BVI, VSC is therefore deemed to be interested in an aggregate of 510,163,600 Shares.
- Huge Top is beneficially interested in approximately 57.59% of the issued share capital of VSC as at 30th June, 2001 and is therefore deemed to be interested in the 232,163,600 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 669,974,944 Shares.
- 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.
- 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 at 30th June, 2001, updated and notified by the Company's sponsor, BNP Paribas Peregrine Capital Limited (formerly known as BNP Prime Peregrine Capital Limited) ("the Sponsor"), 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.

Save as disclosed herein, neither the Sponsor nor any of its directors 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 dated 14th April, 2000, 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**

Mr. Ralph David Oppenheimer, is a non-executive director of the Company, and 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 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 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 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 three months ended 30th June, 2001.

## **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.

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

Hong Kong, 6th August, 2001