

iSteelAsia Holdings Limited

亞鋼集團有限公司*



2003/04 第一季度
業績報告
1st Quarterly Report

FIRST QUARTERLY REPORT FOR THE THREE MONTHS ENDED 30TH JUNE 2003

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM. The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at www.hkgem.com in order to obtain up-to-date information on GEM-listed issuers.

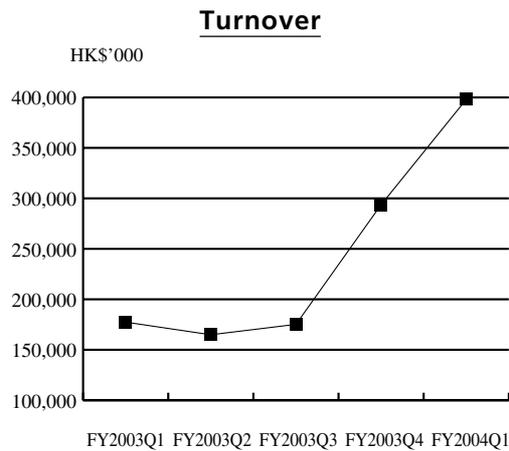
The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors of iSteelAsia Holdings 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 Holdings Limited. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

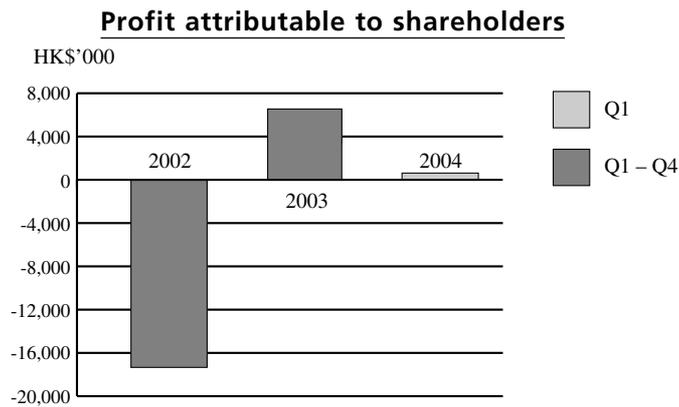
Turnover

Turnover for the three months ended 30th June 2003 was approximately HK\$398 million, representing approximately 124% increase by comparing the results in the corresponding period last year.



Profit attributable to shareholders

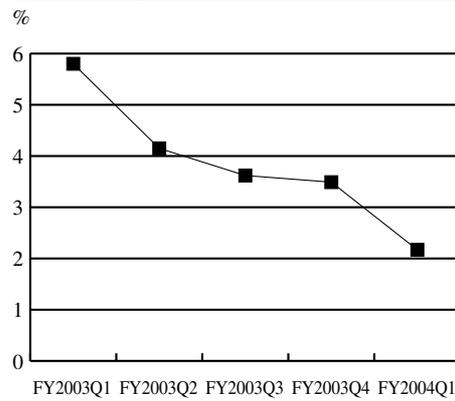
The iSteelAsia Group recorded its profit attributable to shareholders of approximately HK\$625,000.



Operating cost

The iSteelAsia Group's Operating Cost has continuously improved to approximately HK\$8.7 million for the three months ended 30th June 2003 amid the continuous expansion of its sales distribution network for the steel in the PRC.

Operating Cost to turnover ratio



RESULTS

The Board of Directors of iSteelAsia Holdings Limited (the "Company" or "iSteelAsia") has the pleasure of presenting the unaudited consolidated results of the Company and its subsidiaries (together the "Group" or "iSteelAsia Group") for the three months ended 30th June 2003, together with the comparative unaudited figures for the corresponding period in 2002, as follows:

	Note	For the three months ended 30th June	
		2003 HK\$'000	2002 HK\$'000
Turnover	2		
— Sales		395,535	172,643
— Commission		2,500	4,762
Cost of sales		(387,603)	(162,844)
Gross profit		10,432	14,561
Other revenue		385	446
Selling and distribution expenses		(1,489)	(1,904)
General and administrative expenses		(7,164)	(8,050)
Impairment loss of an investment		—	(344)
Operating profit		2,164	4,709
Finance costs		(2,028)	(1,280)
Profit before taxation		136	3,429
Taxation	3	(15)	(7)
Profit after taxation but before minority interests		121	3,422
Minority interests		504	(153)
Profit attributable to shareholders		625	3,269
Earnings per share	4		
— Basic		HK0.04 cents	HK0.21 cents
— Diluted		N/A	HK0.21 cents

Notes:

1. Basis of preparation

The condensed consolidated accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA").

The unaudited condensed consolidated accounts should be read in conjunction with the 2003 annual accounts.

The accounting policies and methods of computation used in the preparation of these accounts are consistent with those used in the annual accounts for the year ended 31st March 2003 except that the Group has changed its accounting policy with respect to deferred taxation following the adoption of Statement of Standard Accounting Practice Number 12: Income Taxes ("SSAP12"), issued by HKSA, which is effective for accounting periods commencing on or after 1st January 2003.

In prior year, deferred taxation was provided for at the current taxation rate in respect of significant timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. Under the SSAP12 (revised), deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

The adoption of the SSAP12 (revised) represents a change in accounting policy, which has been applied retrospectively so that the comparative figures presented have been restated to conform to the changed policy. The adoption of the SSAP12 (revised) has no significant effect on the Group's results for the current or prior accounting periods.

2. Turnover

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

3. Taxation

Taxation consisted of:

	Three months ended 30th June	
	2003 HK\$'000	2002 HK\$'000
Mainland China enterprise income tax	<u>15</u>	<u>7</u>

The Company is exempted from taxation in Bermuda until 2016. No provision for Hong Kong profits tax has been provided as the Group had no assessable profit during the three months ended 30th June 2003 (2002 — Nil). Subsidiaries established in Mainland China are subject to Mainland China enterprise income tax at rates ranging from 15% to 33% (2002 - 15% to 33%).

4. Earnings per share

The calculations of basic earnings per share for the three months ended 30th June 2003 were based on the unaudited consolidated profit attributable to shareholders of approximately HK\$625,000 (2002 - HK\$3,269,000) and on the weighted average number of 1,564,503,000 (2002 - 1,564,500,000) shares in issue during the three months ended 30th June 2003.

No diluted earnings per share for the three months ended 30th June 2003 is presented as the outstanding warrants and employee share options were anti-dilutive.

The calculation of diluted earnings per share for the three months ended 30th June 2002 was based on the unaudited consolidated profit attributable to shareholders of approximately HK\$3,269,000 and on the weighted average number of 1,571,950,000 shares, being the weighted average number of shares outstanding during the period, adjusted for the effects of all dilutive potential shares of 7,450,000 shares in respect of outstanding warrants.

5. Dividends

The Directors do not recommend the payment of a dividend for the three months ended 30th June 2003.

6. Movements in reserves

For the three months ended 30th June 2003, movements in reserves are as follows:

	2003					
	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Investment revaluation reserve <i>HK\$'000</i>	Foreign currency cumulative translation adjustments <i>HK\$'000</i>	Accumulated Losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance, 1st April 2003	11,099	2,700	(21,865)	153	(135,186)	(143,099)
Change in fair value of a long-term investment	—	—	355	4	—	359
Profit attributable to shareholders	—	—	—	—	625	625
Balance, 30th June 2003	<u>11,099</u>	<u>2,700</u>	<u>(21,510)</u>	<u>157</u>	<u>(134,561)</u>	<u>(142,115)</u>

For the three months ended 30th June 2002, movements in reserves are as follows:

	2002					
	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Investment revaluation reserve <i>HK\$'000</i>	Foreign currency cumulative translation adjustments <i>HK\$'000</i>	Accumulated Losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance, 1st April 2002	11,099	2,700	(18,552)	145	(141,776)	(146,384)
Change in fair value of a long-term investment	—	—	(2,250)	—	—	(2,250)
Profit attributable to shareholders	—	—	—	—	3,269	3,269
Balance, 30th June 2002	<u>11,099</u>	<u>2,700</u>	<u>(20,802)</u>	<u>145</u>	<u>(138,507)</u>	<u>(145,365)</u>

FINANCIAL AND BUSINESS PERFORMANCE

The Board of Directors is pleased to report the iSteelAsia Group's first quarter results for the financial year ending 31st March 2004. For the three months ended 30th June 2003 ("FY2004Q1"), the iSteelAsia Group recorded a turnover of approximately HK\$398 million, representing a 124% increase in turnover over the same period last year. Despite the increase in turnover, profit attributable to shareholders for the FY2004Q1 was approximately HK\$625,000, representing a decrease compared to the same period last year of approximately HK\$3,269,000. By comparing the turnover for the three months ended 31st March 2003 ("FY2003Q4"), turnover has increased 36% to approximately HK\$398 million which is reaching almost 50% of the annual turnover in prior year. The increase is mainly due to the enormous supports from the suppliers and the customers. This is also a testimony of the Group's investment into the development of the sales infrastructure with deep market coverage and a reflection of the huge potential of the People's Republic of China ("PRC") steel market. However, the operating environment in China continued to be difficult and highly volatile in the past few months. In early April 2003, the epidemic of SARS in Beijing and Tianjin were so severe that the Central Government had to institute partial to complete quarantine for certain cities. Businesses in the outbreak areas like Beijing and Tianjin almost come to a halt. In addition, some of our customers, mainly manufacturing factories and construction companies had been forced to close for two months. With the sudden drop in manufacturing activities and uncertainties of the impact and duration of SARS, the demand for steel was adversely affected leading to a much lower market prices for steel. This has eroded our gross margin to a great extent. In order to combat this adverse environment, some of the inventories in Beijing and Tianjin had to be reshipped to the Group's other offices to be sold, thus resulting in extra transportation costs of shipping in the goods. As a result, the gross margin for FY2004Q1 decreased 30% to approximately 2.6% by comparing the gross margin for FY2003Q4.

Although geographically diverse, the management is pleased with the various offices' effort to unite in times of tribulation, and together continue to grow the business as a single team, thus reaffirming the management's belief of devoted employees providing quality value-added services to selective loyal customers and the strategy to operate the Group's distributions as a geographically diverse network to hedge against market volatility. With the SARS outbreak in the Beijing and Tianjin regions appeared to be under control, and business was slowly coming back to normal, with steel prices recovering due to the import quota systems for certain steel products in the PRC. The market appeared to have weathered the epidemic and is back on track to achieve healthy growth again.

The management is pleased with the tremendous growth in turnover by each local office. Since 2002, iSteelAsia has strategically expanded its sales distribution network to cover the most densely populated cities like Beijing, Shanghai, Guangzhou, Tianjin, Shenzhen and Chongqing. These cities are well developed with the highest average annual income per capita in China. These factors translate into high demands for household appliances, estate properties and infrastructure construction, which are the key driving forces for steel consumption. As a result, the iSteelAsia Group is able to tap these market opportunities and increase the return to its shareholders.

For FY2004Q1, total cost excluding cost of inventories sold and finance cost (“the Operating Cost”) was approximately HK\$8,653,000, representing a decrease of 16% over the same period in last year. By comparing the figures for FY2004Q1 against the same period last year, headcount had been increased from 56 to 85 and turnover had increased from approximately HK\$177 million to approximately HK\$398 million. Using turnover as a base factor, Operating Cost to turnover ratio had continued to decrease from early 2002 - FY2003Q1 (three months ended 30th June 2002) - 5.80%, FY2003Q2 (three months ended 30th September 2002) - 4.15%, FY2003Q3 (three months ended 31st December 2002) - 3.62%, FY2003Q4 - 3.49% and FY2004Q1 - 2.17%. Productivity has increased as the turnover per headcount in Hong Kong dollar terms has increased to FY2004Q1 - approximately HK\$4,683,000 from FY2003Q4 - approximately HK\$3,538,000. The iSteelAsia Group is encouraged by its effectiveness towards cost control and operational efficiency.

OUTLOOK

The management is optimistic about the future of the iSteelAsia Group as a major steel distributor in the PRC. And to that effect, the Company is also pleased to report the proposed name change to “iSteelAsia Holdings Limited” has been approved by the shareholders in the Annual General Meeting and the related authorities in Bermuda. Since the start of PRC’s economic development in 1980’s, the PRC has continued to grow at a faster rate than the global average, and based on published 2002’s statistics, China is not only the biggest steel producer in the world, she is also the biggest steel consuming country among the world players. International Iron & Steel Institute has projected China will consume 190 million tonnes of steel and is the top player among other world steel consuming countries in 2003. The steel industry in China will continue to move from protective to be more market driven, particularly since China has entered the World Trade Organisation (“WTO”). The management believes that as a long-term trend, the quality of local production capacities will continue to improve in the following years. But in the short to medium term, imports of steel especially in specialty flat steel products will also continue to increase until local capabilities and quality have achieved the global specifications and standards which will then be replaceable by the local supplies. Therefore, the role of iSteelAsia as a value provider to the end-users, will continue to be flexible and will adapt as required to tap these market opportunities in the future. The management will continue to focus on improving the cost efficiency and effectiveness of iSteelAsia’s business. As talents are the greatest assets of the Company, iSteelAsia will continue to cultivate the potential of its staff and create a challenging environment for talents to exploit their potentials. With the PRC undergoing a period of rapid growth, the Company will explore various means to grow the business such as organic growth through the broadening of its asset base or growth through strategic mergers and acquisitions that will provide additional business opportunities to the Company in the PRC steel industry.

On behalf of the Board of Directors, I would like to thank again our worldwide suppliers and customers for their trust and support in our products and services throughout the years. I also wish to express my sincere appreciation to our shareholders for their confidence in iSteelAsia, as well as our staff for their dedication and diligence.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30th June 2003, the interests and short positions of the Directors and the chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.40 of the GEM Listing Rules, were as follows:

Long positions

Name	Type of interest	Attributable interest to the Director	Number of Shares (Note 1)	Number of Warrants (Note 2)	Number of options	Aggregate interest	Approximate % of the Company's issued share capital
Mr. Andrew Cho Fai Yao	— Corporate interest held by TN (Note 3)	deemed interest (indirectly)	196,301,600	39,260,320	—	235,561,920	15.06
	— Corporate interest held by Huge Top (Note 4)	more than one-third (indirectly)	159,811,344	31,962,268	—	191,773,612	12.26
	— Corporate interest held by VSC BVI (Note 5)	through Huge Top (indirectly)	301,026,000	60,205,200	—	361,231,200	23.09
	— Corporate interest held by Right Action (Note 6)	100% (directly)	102,400,000	20,480,000	—	122,880,000	7.85
	— Personal interest (Note 8)	100% (directly)	—	—	5,000,000	5,000,000	0.32
		Total:	<u>759,538,944</u>	<u>151,907,788</u>	<u>5,000,000</u>	<u>916,446,732</u>	<u>58.58</u>

Name	Type of interest	Attributable interest to the Director	Approximate % of the Company's issued share capital				
			Number of Shares (Note 1)	Number of Warrants (Note 2)	Number of options	Aggregate interest	
Ms. Miriam Che Li Yao	— Corporate interest held by TN (Note 3)	deemed interest (indirectly)	196,301,600	39,260,320	—	235,561,920	15.06
	— Corporate interest held by Huge Top (Note 4)	more than one-third (indirectly)	159,811,344	31,962,268	—	191,773,612	12.26
	— Corporate interest held by VSC BVI (Note 5)	through Huge Top (indirectly)	301,026,000	60,205,200	—	361,231,200	23.09
	— Personal interest (Note 8)	100% (directly)	—	—	7,500,000	7,500,000	0.47
Total:			<u>657,138,944</u>	<u>131,427,788</u>	<u>7,500,000</u>	<u>796,066,732</u>	<u>50.88</u>
Mr. Philip King Huen Ma	— Corporate interest held by S & S (Note 7)	—	159,324	31,864	—	191,188	0.01
Ms. Drina C. Yue	— Personal interest (Notes 8 & 9)	100% (directly)	—	—	27,480,000	27,480,000	1.76
Mr. Daniel Takuen Shih	— Personal interest (Note 9)	100% (directly)	—	—	2,000,000	2,000,000	0.13

Notes:

1. These shares are the ordinary shares ("Shares") of HK\$0.10 each in the issued share capital of the Company.
2. The warrants of the Company ("Warrants") are listed and entitle the holders to subscribe in cash for Shares at a subscription price of HK\$0.10 each (subject to adjustment) and are exercisable between 18th June 2002 and 17th June 2005. These Warrants represent physically settled equity derivatives.
3. As at 30th June 2003, TN Development Limited ("TN") owns 196,301,600 Shares and 39,260,320 Warrants. 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.

4. As at 30th June 2003, Huge Top Industrial Ltd. ("Huge Top") owns 159,811,344 Shares and 31,962,268 Warrants. Andrew Cho Fai Yao directly holds 10% and indirectly through Perfect Capital International Corp. ("Perfect Capital") owns more than one-third of the issued share capital of Huge Top. Andrew Cho Fai Yao owns the entire issued share capital of Perfect Capital. 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.
5. As at 30th June 2003, VSC BVI owns 301,026,000 Shares and 60,205,200 Warrants and Huge Top owns approximately 65.74% 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.
6. As at 30th June 2003, 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.
7. As at 30th June 2003, 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.
8. 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 companies of the Group, including any executive directors, to take up options to subscribe for Shares. The Old Scheme became effective upon the listing of the Shares on 20th April 2000.

Details of movements in the share options to subscribe for Shares granted to and held by certain Directors during the three months ended 30th June 2003 under the Old Scheme were as follows:

Name	Date of grant	Exercise price per Share	Vesting period	Exercise period	Number of options		
					Beginning of period '000	Exercised during the period '000	End of period '000
Mr. Andrew Cho Fai Yao	7th November 2000	HK\$0.485	7th November 2000 to 7th November 2001	8th November 2001 to 12th April 2010	5,000	—	5,000
Ms. Miriam Che Li Yao	3rd July 2000	HK\$0.360	3rd July 2000 to 30th September 2001	1st October 2001 to 12th April 2010	2,500	—	2,500
	7th November 2000	HK\$0.485	7th November 2000 to 7th November 2001	8th November 2001 to 12th April 2010	5,000	—	5,000
Ms. Drina C. Yue	3rd July 2000	HK\$0.360	3rd July 2000 to 30th September 2001	1st October 2001 to 12th April 2010	2,000	—	2,000
	7th November 2000	HK\$0.485	7th November 2000 to 7th November 2001	8th November 2001 to 12th April 2010	5,000	—	5,000

No options under the Old Scheme 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 were granted thereunder but in all other respects, the provisions of the Old Scheme remain in force and all options granted prior to such termination 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 GEM Listing Rules requirements. Up to the date of this report, no options have been granted pursuant to the New Scheme. All the above-mentioned options are unlisted and represent physically settled equity derivatives.

9. Employee options to purchase Shares from TN

Name	Employee options granted	Number of employee options		
		Beginning of period	Exercised during the period	End of period
Ms. Drina C. Yue	30,720,000	20,480,000	—	20,480,000
Mr. Daniel Takuen Shih	2,000,000	2,000,000	—	2,000,000

Notes:

- (i) Each of Drina C. Yue and Daniel Takuen Shih has been granted an option to purchase 30,720,000 Shares (balance as at 30th June 2003 — 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. Each option 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 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 exercised in accordance with (a) and (b) above) be exercised in full.
- (ii) All the above-mentioned options are unlisted and represent physically settled equity derivatives.

Save as disclosed above, as at 30th June 2003, none of the directors or their associates as well as the chief executives of the Group had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors of the Company as referred to in Rule 5.40 of the GEM Listing Rules.

INTERESTS DISCLOSABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 30th June 2003, the following persons (other than those Directors or chief executives of the Company disclosed above) had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and/or were directly or indirectly interested in 10% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group:

Long positions

Name	Type of interest	Number of Shares	Number of Warrants	Aggregate interest	Approximate % of the Company's issued share capital	Notes
VSC BVI	— directly	301,026,000	60,205,200	361,231,200	23.09	
	— indirect deemed interest through TN	<u>196,301,600</u>	<u>39,260,320</u>	<u>235,561,920</u>	<u>15.06</u>	
	Total:	<u>497,327,600</u>	<u>99,465,520</u>	<u>596,793,120</u>	<u>38.15</u>	1
VSC	— indirectly through VSC BVI	301,026,000	60,205,200	361,231,200	23.09	
	— indirect deemed interest through TN	<u>196,301,600</u>	<u>39,260,320</u>	<u>235,561,920</u>	<u>15.06</u>	
	Total:	<u>497,327,600</u>	<u>99,465,520</u>	<u>596,793,120</u>	<u>38.15</u>	1 & 2
Huge Top	— directly	159,811,344	31,962,268	191,773,612	12.25	
	— indirectly through VSC BVI	301,026,000	60,205,200	361,231,200	23.09	
	— indirect deemed interest through TN	<u>196,301,600</u>	<u>39,260,320</u>	<u>235,561,920</u>	<u>15.06</u>	
	Total:	<u>657,138,944</u>	<u>131,427,788</u>	<u>788,566,732</u>	<u>50.40</u>	1, 2 & 3
Perfect Capital	— indirectly through Huge Top	159,811,344	31,962,268	191,773,612	12.25	
	— indirectly through VSC BVI	301,026,000	60,205,200	361,231,200	23.09	
	— indirect deemed interest through TN	<u>196,301,600</u>	<u>39,260,320</u>	<u>235,561,920</u>	<u>15.06</u>	
	Total:	<u>657,138,944</u>	<u>131,427,788</u>	<u>788,566,732</u>	<u>50.40</u>	1, 2 & 3

Name	Type of interest	Number of Shares	Number of Warrants	Aggregate interest	Approximate % of the Company's issued share capital	Notes
TN	— directly	196,301,600	39,260,320	235,561,920	15.06	4
Mr. Leroy Lin Yuen Kung	— indirectly through Grand Bridge	181,824,000	36,364,800	218,188,800	13.95	5
Galaface Limited	— indirectly through Grand Bridge	181,824,000	36,364,800	218,188,800	13.95	5
Asian Gold Associates Limited	— indirectly through Grand Bridge	181,824,000	36,364,800	218,188,800	13.95	5
iMerchants Group Limited	— indirectly through Grand Bridge	181,824,000	36,364,800	218,188,800	13.95	5
Grand Bridge Enterprises Limited	— directly	181,824,000	36,364,800	218,188,800	13.95	5
Mr. Mochtar Riady	— indirectly through Actfield	110,000,000	22,000,000	132,000,000	8.44	6
Ms. Lidya Suryawaty	— indirectly through Actfield	110,000,000	22,000,000	132,000,000	8.44	6
Lanius Limited	— indirectly through Actfield	110,000,000	22,000,000	132,000,000	8.44	6
Lippo Cayman Limited	— indirectly through Actfield	110,000,000	22,000,000	132,000,000	8.44	6
Congrad Holdings Limited	— indirectly through Actfield	110,000,000	22,000,000	132,000,000	8.44	6
Actfield Limited	— directly	110,000,000	22,000,000	132,000,000	8.44	6
Right Action	— directly	102,400,000	20,480,000	122,880,000	7.85	

Notes:

1. VSC BVI owns 54% of the share capital of TN and is deemed to be interested in the 196,301,600 Shares and 39,260,320 Warrants held by TN as at 30th June 2003. VSC BVI directly owns 301,026,000 Shares and 60,205,000 Warrants as at 30th June 2003. VSC BVI is therefore directly and indirectly interested in an aggregate of 497,327,600 Shares and 99,465,520 Warrants.
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 and 99,465,520 Warrants.
3. Perfect Capital owns more than one-third of the share capital of Huge Top as at 30th June 2003. Huge Top is beneficially interested in approximately 65.74% of the issued share capital of VSC as at 30th June 2003 and Perfect Capital and Huge Top are therefore deemed to be interested in the 196,301,600 Shares and 39,260,320 Warrants held by TN and the 301,026,000 Shares and 60,205,000 Warrants held by VSC BVI as at 30th June 2003. As at the same date, Huge Top also directly owns 159,811,344 Shares and 31,962,268 Warrants. Huge Top is therefore directly and indirectly interested in an aggregate of 657,138,944 Shares and 131,427,788 Warrants, and Perfect Capital is indirectly interested in the same aggregate interests.

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. As at 30th June 2003, Grand Bridge Enterprises Limited ("Grand Bridge") directly owns 181,824,000 Shares and 36,364,800 Warrants. Grand Bridge is a wholly-owned subsidiary of iMerchants Group Limited which is a wholly-owned subsidiary of Asian Gold Associates Limited ("AGA"), in which 76% of the issued share capital of AGA is owned by Galaface Limited ("Galaface"). Mr. Leroy Lin Yuen Kung is deemed to have interests in the 181,824,000 Shares and 36,364,800 Warrants owned by Grand Bridge as he owns the entire interest in Galaface and is entitled to exercise more than one-third of the voting power at general meetings of both AGA and Galaface.
6. As at 30th June 2003, Actfield Limited ("Actfield") directly owns 110,000,000 shares and 22,000,000 Warrants. Actfield is a wholly-owned subsidiary of Congrad Holdings Limited which is a wholly-owned subsidiary of Lippo Cayman Limited. Lanius Limited ("Lanius") is the registered shareholder of the entire issued share capital of Lippo Cayman Limited. Lanius is the trustee of a discretionary trust, of which Mr. Mochtar Riady is the founder. The beneficiaries of the trust include Mr. Mochtar Riady and his family members. Mr. Mochtar Riady is not the registered holder of any shares in the issued share capital of Lanius.

Save as disclosed above, as at 30th June 2003, there was no person (other than a director or chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and/or were interested in 10% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

SPONSOR'S INTERESTS

ICEA Capital Limited ("ICEA") has been appointed by the Company as the sponsor to the Company from 16th August 2001 to 30th April 2003. 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.

As at 30th April 2003 and as updated and notified by ICEA:

1. Neither ICEA nor its associates have any interest in any class of securities of the Company or any other company in the Group (including options or rights to subscribe such securities);
2. No director or employee of ICEA who is involved in providing advice to the Company has any interest in any class of securities of the Company or any other company in the Group (including options or rights to subscribe such securities);

3. Neither ICEA nor its associates expect to have accrued any material benefit as a result of the successful outcome of any transaction, including by way of example, the repayment of material outstanding indebtedness and payment of any underwriting commissions or success fees; and
4. No director or employee of ICEA has a directorship in the Company or any other company in the Group.

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 international steel trading. Mr. Andrew Cho Fai Yao and Ms. Miriam Che Li Yao are the Chairman and the Deputy Chairman of the Company, respectively, and also the chairman and the deputy chairman of VSC, respectively and VSC is also engaged in steel trading business. The Directors believe that there is a risk that such businesses may compete with those of the Group. However, the Directors are also of the view that the invaluable experience of Mr. Oppenheimer, Mr. Yao and Ms. Yao 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) or any of their respective associates has an interest in a business, which competes or may compete with the business of the Group or has any other conflict of interest which any such person has or may have with 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 2003.

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 accounts for the three months ended 30th June 2003 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, 14th August 2003

