

iSteelAsia.com Limited

99/00 Annual Report



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 of the Stock Exchange 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 in order to obtain up-to-date information on GEM-listed issuers.

Contents

Corporate Information	2
Corporate Structure	3
Milestones and Events of iSteelAsia.com	4
Chairman's Statement	7
Management Discussion and Analysis	10
Membership	22
Services Provided by iSteelAsia.com	25
Directors, Adviser, and Senior Management	39
Report of the Directors	44
Auditors' Report	53
Combined Income Statement	55
Combined Balance Sheet	56
Combined Cash Flow Statement	57
Notes to the Combined Financial Statements	58

Corporate Information

Board of Directors

Mr. Andrew Cho Fai Yao
Ms. Miriam Che Li Yao
Ms. Drina C. Yue
Mr. Moses Kwok Tai Tsang*
Ms. Lena Foo*
Mr. Daniel Takuen Shih*
Mr. Yeung Kwok Keung**
Mr. Philip King Huen Ma**

* *Non-Executive Directors*

** *Independent Non-Executive Directors*

Compliance Officer

Ms. Drina C. Yue

Company Secretary

Ms. Tse Sau Wai, *FCS, FCIS*

Qualified Accountant

Ms. Lee Wing Chee, *AHKSA, ACCA*

Audit Committee

Mr. Yeung Kwok Keung
Mr. Philip King Huen Ma

Sponsor

BNP Prime Peregrine Capital Limited
23rd Floor
New World Tower
16-18 Queen's Road Central
Hong Kong

Auditors

Arthur Andersen & Co

Solicitors

Baker & McKenzie (on Hong Kong Laws)
Conyers Dill & Pearman (on Bermuda Laws)

Head Office and Principal Place of Business

52nd Floor, The Center
99 Queen's Road Central
Hong Kong

Website of the Company

www.isteelasia.com

Registered Office

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Principal Share Registrar and Transfer Office in Bermuda

Butterfield Corporate Service Limited
65 Front Street
Hamilton
Bermuda

Hong Kong Branch Share Registrar and Transfer Office

Central Registration Hong Kong Limited
19th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

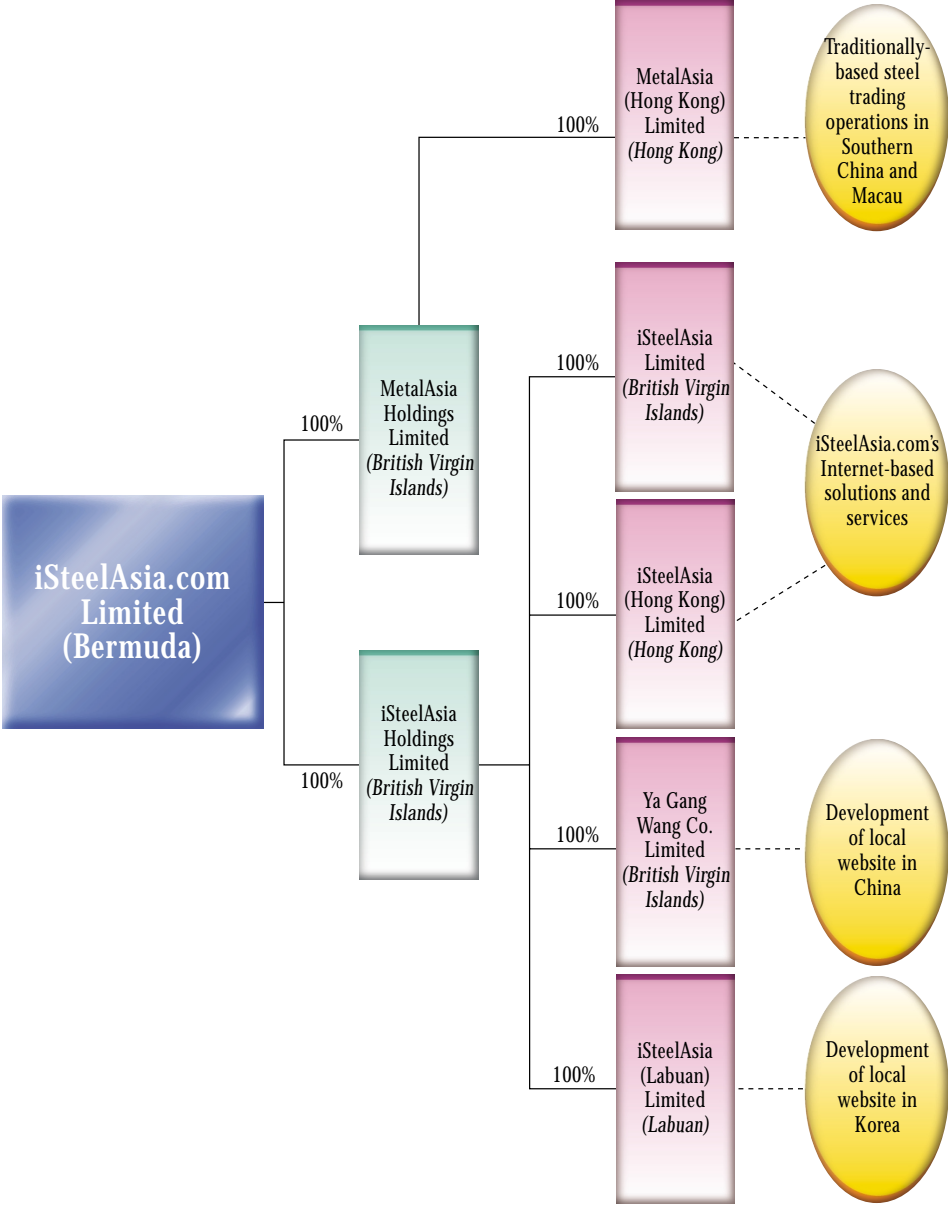
Principal Bankers

ABN AMRO Bank N.V
BNP Paribas Hong Kong Branch
Citibank, N.A.
Hang Seng Bank Limited
The Hongkong and Shanghai Banking
Corporation Limited

Stock Code

8080

Corporate Structure



Milestones and Events of iSteelAsia.com

OCTOBER 1999

A working team well-versed in the operation of the steel industry was assembled by Van Shung Chong Holdings Limited (“VSC”) and its subsidiaries (together “the VSC Group”) and, together with a technical team from iMerchants Limited, commenced work on building, customising and implementing the system architecture and solutions for iSteelAsia.com.

DECEMBER 1999



Launch of iSteelAsia.com — The region’s first vertical portal for the steel industry with an Asia Pacific focus. A number of well established enterprises in the steel industry expressed their interests in becoming Founding Members.

11TH JANUARY 2000

iSteelAsia.com Limited (“the Company”) and its subsidiaries (together “the Group”) recorded the first ever online steel trade in the Asian region.

JANUARY — MARCH 2000

For the period from January to March 2000, approximately US\$33 million of steel products had been contracted through iSteelAsia.com.



26TH JANUARY 2000

Chinese-language version of iSteelAsia.com went online to facilitate our business strategy in China.

2ND MARCH 2000

The Group entered into a memorandum of understanding with SK Global Co., Ltd., one of the largest business conglomerates in South Korea, to develop a country specific website in South Korea together with TriGem Computer Inc., Korea Thrunet Co., Ltd. and e-Capital Co., Ltd.



Milestones and Events of iSteelAsia.com

6TH MARCH 2000

The Group entered into a memorandum of understanding with Steelscreen.com, an European-focused online trading platform for steel and aluminium products. The purpose was to provide a basis for co-operation in the future to explore ways to jointly develop software and hardware applications, cross-refer customers and transactions and to provide each other's customers with access to the other's value-added services.

15TH MARCH 2000

The Group introduced the new management team and its new working partner, Scient, the leading eBusiness Systems Innovator™, who worked closely with iSteelAsia.com to further enhance its eBusiness infrastructure and strategies to enable continued competitive advantage.



25-26TH MARCH 2000

The Group hosted the 1st International Agency Conference in the Convention Centre, Hong Kong. The aim of this initiative is to provide a forum for the Group and its international agencies as a way of further development and enhancing existing relationships through informative presentations and detailed discussions. Our international agencies comprised representatives from Europe, the United States of America, the Philippines, India, Taiwan and China.



1ST APRIL 2000

to The Center, a prime info-tech hub situated in the Central district of Hong Kong.

20TH APRIL 2000

Dealings in the Company's shares (stock code: 8080) commenced on Hong Kong's GEM Board.



Milestones and Events of iSteelAsia.com

2ND MAY 2000

The Group entered into a memorandum of understanding with The Korean Metal Journal Co, Limited, to become one of our content providers for contribution of industry relevant and Korean focused content for both iSteelAsia.com and a Korean domestic portal to be developed.

7-11TH MAY 2000

Over 800 international steel industry experts attended the Group's presentation "The coming opportunities of steel exchange by B2B e-Commerce" during the Beijing "Steel 2000" Conference.



9TH MAY 2000

The Group announced its strategy and future expansion plans during a press conference held in the Great Hall of the People in Beijing, China.

12TH MAY 2000

The Group conducted a training workshop focusing on online trading functionalities at Kun Lun Hotel in Beijing, with the objectives to familiarise with the attendees the use of online auction and procurement functionalities. A number of delegates from different regions in China attended the training.

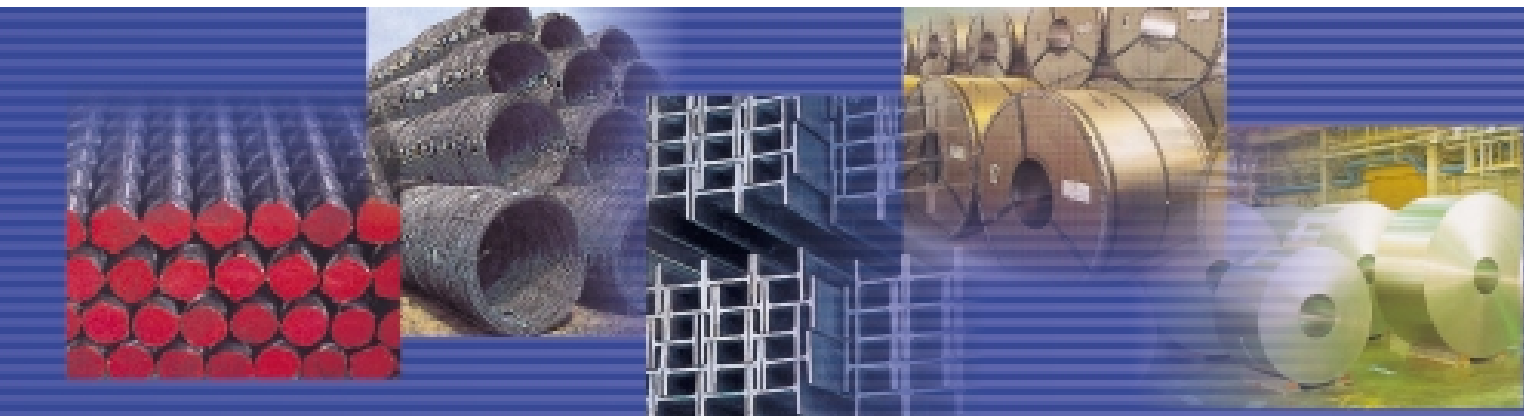


31ST MAY 2000

The Group had 62 full-time employees and overseas representatives. Offices had been established in over 10 locations to support business development and provision of value-added services.



Chairman's Statement



Since the official launch of our vertical trading portal in December 1999, iSteelAsia.com Limited has captured tremendous “first mover” advantage and achieved rapid growth to be the leading steel trading vertical portal (“vortal”) in the Asia Pacific region. With the concerted efforts of our staff and the committed support of our shareholders, the Company overcame the very challenging equity market condition and was successfully listed on the GEM of the Stock Exchange on 20th April, 2000. The Company is proud to be the first publicly listed steel trading vortal in the world and the first business-to-business (“B2B”) e-commerce company listed on the GEM.

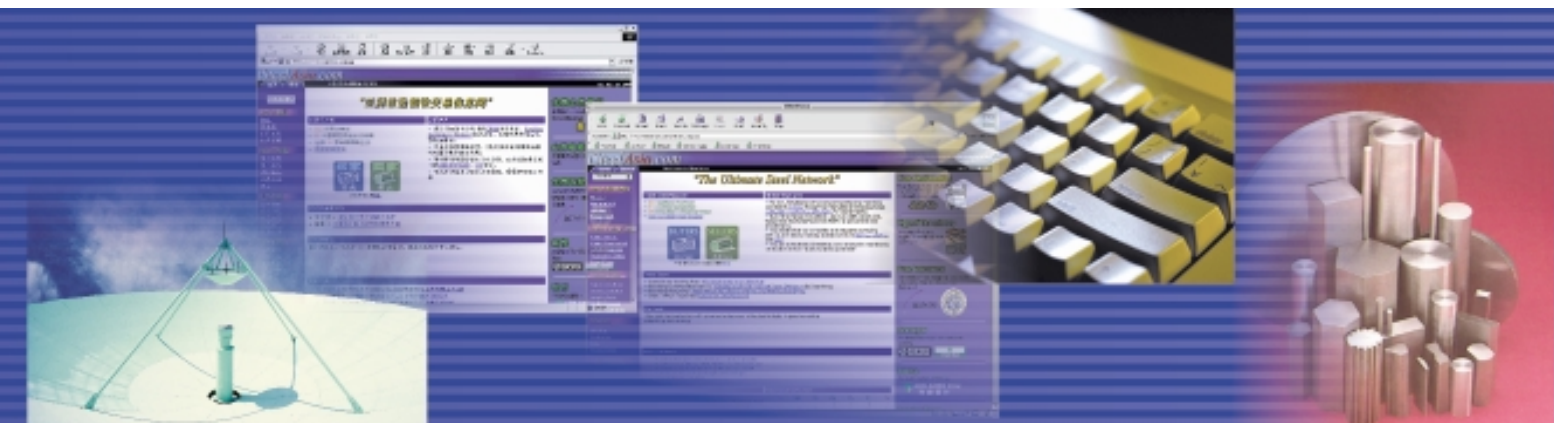
Solid Management Team

The Group strongly believes human capital is a key success factor for the fast growing B2B e-commerce market. We are successful in recruiting high caliber professionals from diverse industry background to lead in key functions. Our management team shares expertise from steel trading, strategic sourcing, telecommunication, banking, technology, logistics, marketing, customer services and legal. We have cultivated a strong corporate culture with emphasis on teamwork, empowerment, top quality, dedication, entrepreneurship and creativity.

Focused Business Development

The Group focuses its strategy on international cross-border trading as well as domestic trading with an Asian focus. To penetrate these markets, the Group has already established presence in over 10 locations including Hong Kong, Beijing, Shanghai, Guangzhou, South Korea, India, Singapore, the Philippines, Europe, Dubai and the United States of America. In addition, the Group is planning to add local presence in Japan and Taiwan. Our elite group of founding members serves to be the major catalysts to migrate traditional offline transactions to online marketplace.

Chairman's Statement



With a long-term commitment for China, the largest steel market in the world, the Group has decided to set up representative offices in Beijing, Shanghai and Guangzhou. We have also identified major Chinese partners to build up domestic portal(s) for capturing the potential in the domestic China market. For South Korea, we have allied with one of the largest Korean conglomerates to develop a country specific domestic vortal in South Korea and are in the final stages of partnership negotiation. For other Asian countries, the Group is also actively seeking opportunities to expand our presence through different partnership opportunities.

Growth through Strategic Alliances and Acquisitions

Besides rapid organic growth, the Group is actively seeking external growth through suitable strategic alliances and acquisition. We believe the current consolidation in the marketplace will bring tremendous opportunities to the Group. And we are exploring, in diligence, suitable opportunities that offer synergy to strengthen our market leader position.

Path to Profitability

The Group is very committed to revolutionise the steel trading industry and to build up recurring sustainable transaction volume in the vortal. With our effort, the Group has seen encouraging growth momentum in transaction volume since our official launch. To maintain long-term sustainable profit margin, the Group also intends to extend its revenue model from trading commission to fee-based income derived from value-added services. Our dedicated strategic alliance team has been actively developing strategic partnerships to fully integrate the supply chain online. We have forged strategic partnerships with over 10 major industry leaders from banking, insurance, logistics, content and surveying. While committing investment for building our future, the Group is also very conscious about profitability and is implementing stringent cost control and productivity measures.

Chairman's Statement

Outlook

The Group is very confident and optimistic about the future outlook of online steel trading market in Asia. All major consulting and research firms have unanimously forecasted that e-commerce is the trend in global steel industry. The impact of e-commerce in the steel industry will be phenomenal, particularly in Asia, which accounts for up to 45% of the worldwide annual turnover of USD700 billion. As the first fully operational multi-language steel trading portal in Asia, the Group is well positioned to be the leading e-commerce enabler for the steel trading community in Asia Pacific.

Andrew Cho-Fai Yao

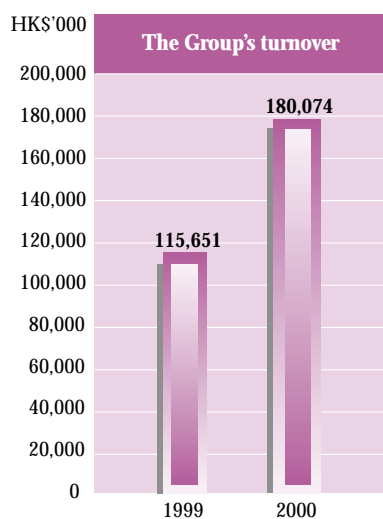
Chairman

Hong Kong

26th June, 2000

Management Discussion and Analysis

FINANCIAL REVIEW



The Board of Directors is pleased to report the combined results of the Group for the year ended 31st March, 2000. The Group's turnover increased 56% to approximately HK\$180,074,000 with the majority of turnover from its traditional steel trading operation. However, the Group recorded a net loss of approximately HK\$6,812,000 despite an increase of 193% in net profit from its traditional steel trading business from approximately HK\$3.0 million to HK\$8.8 million. This is due to the net loss of approximately HK\$15.6 million attributable to the launching and operation of online steel trading operation — iSteelAsia.com. On 20th April, 2000, the Group overcame the very challenging market condition and was successfully listed on the GEM of the Stock Exchange. Approximately HK\$82.0 million of the net proceeds was raised through offering 100,000,000 new shares at par value of HK\$0.10 each for HK\$1.08 per share of the Company by way of placing (“the Placing”) and an option exercised by the underwriter. This is in addition to the HK\$57.6 million raised from an earlier pre-placing fund raising exercise. The Group is also proud to make a record to be the first publicly listed steel trading vortal in the world and the first B2B e-commerce company listed on the GEM.

REVIEW OF THE OPERATIONS

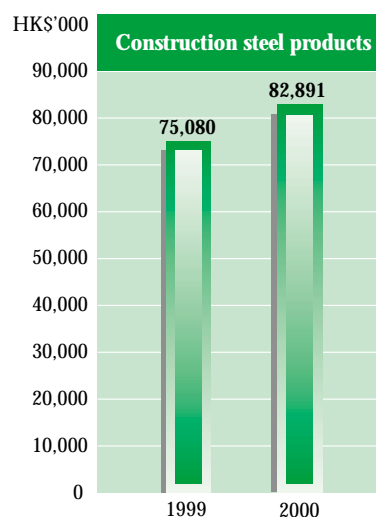
The Group is principally engaged in the provision of trading and other value-added services for participants in the supply chain of the steel industry. The Group's traditional steel trading operation originated in 1994 within the VSC Group. Currently, the VSC Group is the largest shareholder of the Company. Historically, the Group has sourced steel products and arranged value-added services for its customers through telephone calls, facsimile transmissions and personal visits. Value-added services provided include assisting customers with inventory management and logistic arrangements. As the industry becomes increasingly competitive, many competitors are beginning to adopt the latest technology to increase their productivity and profits. Against this background, the Group commenced the online steel trading operation by launching the iSteelAsia.com website in December 1999. The iSteelAsia.com website provides an Internet-based trading platform as an additional means for buyers to

Management Discussion and Analysis

source and sellers to sell steel products with online access to a range of value-added information and services such as the procurement of trade finance against which the steel products are shipped and the provision of relevant information on the steel industry. On 10th February, 2000, the Company was incorporated to take over the traditional steel trading operation of the VSC Group and the operation of the iSteelAsia.com website. All of the Company's services, including those of its subsidiaries, are focused on serving customers in the steel industry.

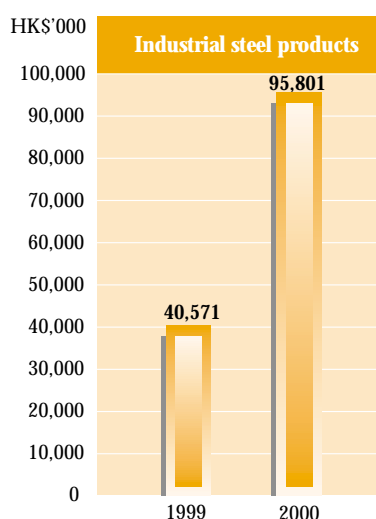
An analysis of the Group's turnover for the years ended 31st March, 1999 and 2000 is set out below:

	Year ended 31st March,	
	2000 (HK\$'000)	1999 (HK\$'000)
Traditional steel trading operation		
Construction steel products ("long products")	82,891	75,080
Industrial steel products ("flat products")	95,801	40,571
	178,692	115,651
Online steel trading operation		
Commission income	1,382	—
	180,074	115,651



TRADITIONAL STEEL TRADING OPERATION

Comparing the year ended 31st March, 2000 with the year ended 31st March, 1999, sales revenue from both construction and industrial steel products recorded tremendous growth. The sales revenue from industrial steel products increased 136% to approximately HK\$95,801,000 while the sales revenue from construction steel products increased 10% to approximately HK\$82,891,000. The sharp increase in sales revenue from industrial steel products is mainly due to the rapid growth within the technology industry which in turn generates high demand of computers and related electrical appliances. The increase of sales revenue from construction steel products is mainly due to a steady growth of real estate market in Southern China.



Management Discussion and Analysis

All of the Group's products are sourced via the VSC Group from steel mills globally like Korea, Japan, Taiwan, Thailand, as well as the People's Republic of China ("the PRC"). The Group is able to benefit from the VSC Group's high volume purchasing power and from only paying the VSC Group at cost (including, without limitation, transportation and warehousing costs incurred in respect of such supply). This arrangement is mutually beneficial as it enables the VSC Group to also achieve lower prices for its own purchases. The Group's traditional steel trading operation also assists customers with the logistics of packing, loading, unloading, trucking and the shipping of goods to end-users in the PRC as it has now acquired several years of logistics experience. Another value-added service is assisting customers to complete their custom declarations. The Group's regular customers include factories, project based companies and stockists in Southern China and Macau. The Group's sales are denominated in Hong Kong dollars, US dollars and Renminbi.

The Group's largest customer in the years ended 31st March, 1999 and 2000, which, in each case, is an independent third party, accounted for approximately 24% and 36% respectively of the Group's turnover. For the years ended 31st March, 1999 and 2000, the Group's five largest customers, all of which were independent third parties, accounted for approximately 63% and 71% respectively of the Group's turnover. None of the Directors of the Company, their associates or any shareholders (which to the knowledge of the Directors of the Company owned more than 5% of the Company's share capital) had a beneficial interest in the five largest customers of the Group.

The Group has developed three key strategic objectives to enhance its traditional steel trading operations. First, it will emphasise sales of higher margin products for use by end-users in Southern China. Secondly, it is increasing sales of lower margin products to traders and stockists who are able to offer better payment terms and lower credit risk. Thirdly, it is assessing the potential of entering into strategic partnerships with one or more PRC distributors to expand its potential customer base in Southern China.

Management Discussion and Analysis

ONLINE STEEL TRADING OPERATION — ISTEELASIA.COM

With the launching of iSteelAsia.com website in December 1999, iSteelAsia.com is committed to be the premier B2B vortal for the steel community in the Asia Pacific region. For the year ended 31st March, 2000, approximately US\$33 million of transaction volume had been contracted through iSteelAsia.com and the Group thus recorded commission income of approximately HK\$1,382,000 from the online steel trading operation during its first 3-month operation in the current year.

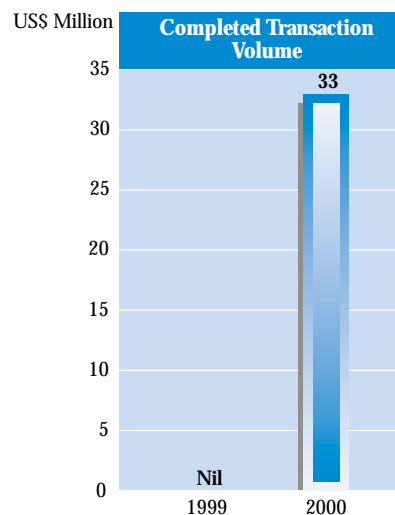
Since the listing of the Company on 20th April, 2000, the online steel trading operation continues to grow rapidly. The Group's total number of membership has grown 27% to over 1960 and outstanding deal postings have grown 71% to over 190 from 20th April, 2000 to 31st May, 2000.

Core Services

Currently, iSteelAsia.com offers four core services, namely, Online Procurement, Online Auction, Industry Info, and The Steel Talk. These services enable iSteelAsia.com to facilitate commerce, display industry focused contents with a comprehensive and updated news archive and foster a community spirit and stickiness among Members. Online Procurement and Online Auction enable trading transactions in a wide range of steel products by matching buyers and sellers in an online trading environment.

1. Online Procurement

Being a demand driven posting, this function enables a Corporate Member to effect an online purchase of products required. The transaction is basically carried out in three basic steps — the posting of a purchase by the posting buyer, the counter offering of a quote by a potential supplier, and then negotiation and completion of the transaction.



Management Discussion and Analysis

2. *Online Auction*

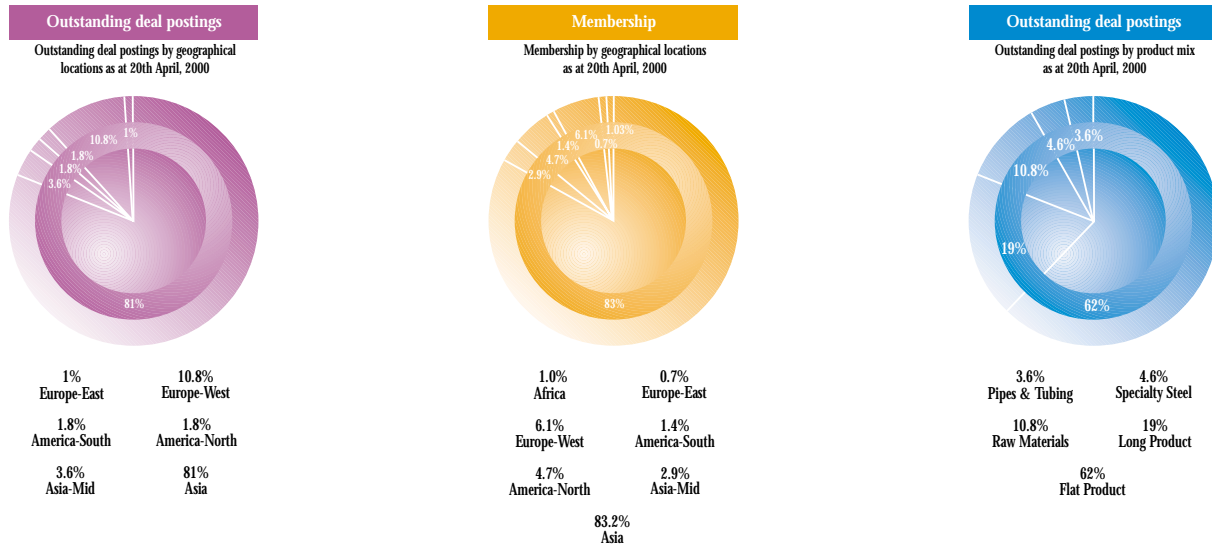
Being a supply driven posting, this function enables a Corporate Member to effect an online sales of products desired. The transaction is also carried out in three basic steps — the posting of details and terms of product that a posting seller would like to sell, the counter offering of a quote by a potential purchaser, and then negotiation and completion of the transaction.

Currently, iSteelAsia.com's trading engine provides the platform for such negotiation, and we derive our revenue by charging a commission fee from the seller only. No fee will be charged until the terms of the negotiation are confirmed by both the selling and purchasing parties, and the transaction is then considered completed by the Group for the purpose of recognising its commission revenue.

As the Group's revenue is highly dependent on customer satisfaction, we consider Customer Relationship Management ("CRM") a very critical element to the success of the Group's strategy. It is our goal to continue to improve the user friendliness of the iSteelAsia.com trading platform, and continue to harness technologies to make the trading experience with iSteelAsia.com the most satisfactory one. Since its launch in December 1999, the Group has undergone continuous revamp of the website, some are more subtle, while some are more apparent to the users. On the subtle side, we have made continued efforts to increase the "back-end" operations of the site to make it more robust and more ready to facilitate future expansion, while the more apparent changes include a slight change over on "look and feel" of the iSteelAsia.com and the provision of individual user customisation — "My iSteelAsia".

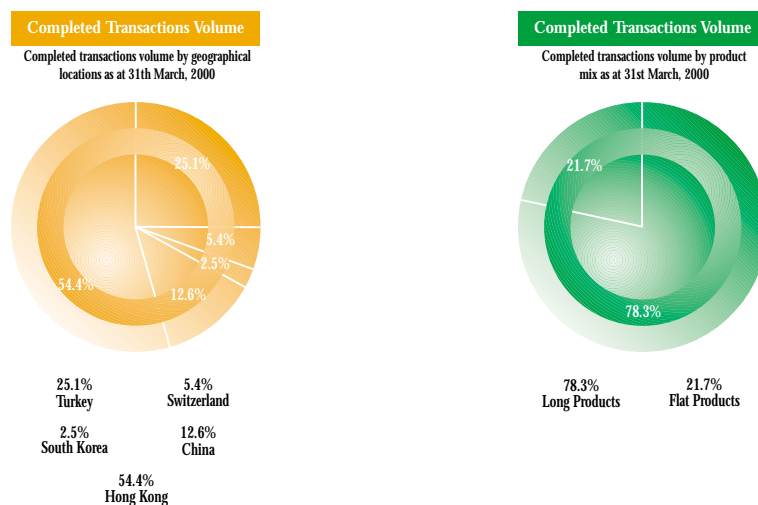
For the period up to the end of May since our listing, we have through intensive marketing and training efforts led to improved brand awareness, and increased familiarity in utilising the iSteelAsia.com trading platform. Our aggregate transaction volume has grown significantly while under the same period, the total number of posting has also increased significantly, of which approximately 11% materialised into completed transactions. In all successful transactions, the negotiation stage is relatively quick with few negotiations before completion. We believe this low number of negotiations and also low "posting to completion ratio" is a reflection of the still reluctance to trust the capability of negotiation through the internet by the steel industry traders' traditional way of thinking. To improve this "posting to completion ratio", currently, the Group is embarking on a very intensive effort to strengthen its customer awareness and customer feedback programs through individual face to face visits or seminars. The intention of these efforts is two fold, firstly, to increase user awareness of the iSteelAsia.com's capabilities, and motivations to continue using or start using iSteelAsia.com, and secondly, to receive feedback directly from users to further enhance the user friendliness of the iSteelAsia.com, and thus improving the success rate from posting to completion.

Management Discussion and Analysis



Consistent with the Group's core Asian competence, the bulk of our growth are from Asia. In the area of postings, the majority of the increases are from either Asian based sellers or Asian based purchasers. Of the total online postings, postings by Asian based users represent approximately over 80% up to the date of listing. Nevertheless, all other major geographical regions were represented which include, East Europe, West Europe, North America, South America and Middle East/East Asia. While on the membership front, again Asian interest fuels the growth, in which over 80% of the total membership are from Asia up to the date of listing. As iSteelAsia.com is designed to be a neutral vortal for the steel industry, we will make every effort to encourage trades of as many steel products online as possible. In the same period, postings on iSteelAsia.com cover a wide range of products like pipes & tubing, specialty steel, raw materials, long product and flat product, but again as a reflection of the Group's Asian focus, a large percentage of over 80% of the postings (which represents genuine interest on either to sell or to purchase) are in flat products and long products, which are very popular in Asia.

Management Discussion and Analysis



In terms of completed transactions, up and until the end of March 2000, the Group's online transaction comes from both Asian domestic and international trades, but again in line with the Group's core competence in Asia and especially the Greater China region (the PRC, Hong Kong, and Taiwan), the majority of the completed transactions are represented by players in these regions. Completed transactions by geographical locations are determined mainly on the basis of location of sellers. As far as product ranges are concerned, it can be noted that consistent with the trends reflected in the postings on iSteelAsia.com, all are for long products and flat products.

3. Industry Info

As all membership fee in iSteelAsia.com are free of charge, we tread a very fine line as to providing our users valuable and practical informations on a timely manner while maintaining the cost effectiveness of such a service to iSteelAsia.com. Currently, this content service has been designed to enable our users to access a comprehensive array of information sites in five (5) categories:

- Industry News — English and Chinese language news service which has the capability to extend beyond steel industry news to equity news, foreign exchange, country and industry reports, international commodities news, shipping reports, bunker fuel reports, and other regional financial news when available from the content providers. Currently, the Group is already working with Reuters Hong Kong Limited to provide such news feed, but we are also taking a two-pronged strategy — expanding our content provider base to include other suppliers in the industry to individual countries;
- Hyperlinks Library — web links to major steel mills, associations and institutes, and publications and shipping management companies;

Management Discussion and Analysis

- Industry Calendars — highlights major upcoming industry events, conferences, seminars;
- Industry Reports — has the capability to include analysis from consulting firms, extracts from metal journals and magazines, press interviews with leaders in the steel industry; in addition, the Group has also set up our inhouse online content editors that will periodically prepare proprietary reports for the perusal of iSteelAsia.com's users;
- Industry Standards — a summary of steel production standards in different countries for the easy reference of our users.

4. *The Steel Talk*

The function of The Steel Talk is to provide an online open forum for iSteelAsia.com's users to express their opinions, share their ideas and chat with other users on topical subjects in the steel industry. The intention of The Steel Talk is to foster a community through discussions, and thus enhancing the stickiness of the users to iSteelAsia.com. Although The Steel Talk community is of no comparison to some of the more popular consumer based chat room communities, nevertheless, we did experience many healthy dialogues from our users since its inception.

Value-added services

The Directors realise that to maintain iSteelAsia.com's leading position as a dominant steel portal, iSteelAsia.com will have to be more than just an exchange function. It has to provide services throughout the steel trading value chain. As such, the Directors believe that the Group can enhance its role as an intermediary in the steel supply chain by providing via seamless link to value-added services such as customs clearance, surveying, financial, freight and insurance services to assist customers to settle trades. The online steel trading platform provides online access and referrals to value-added service providers which are similar to those referrals which may be made by the traditional steel trading operation but unmatched in terms of efficiency and price.

The following opportunities have been identified where iSteelAsia.com can add value to enable one-stop shopping for its users through strategic partnerships with value-added service providers:

- third party surveyors
- banks
- shipping
- insurance companies
- content providers

Management Discussion and Analysis

Third party surveyors. Buyers customarily engage surveyors in the country of the seller's origin to check if the goods to be shipped conform to the product specifications of the goods purchased. Depending on the volume of goods being shipped, the surveying process may take two to five days to complete and it may be difficult for the surveyor to communicate with the buyer as to the status of the survey while it is being undertaken. The Group is in the process of entering into arrangements with Inspectorate, a division of the British Standards Institution group, China National Import & Export Commodities Inspection Corporation and SGS Mineral Services of Switzerland pursuant to which they will offer their services to Members of iSteelAsia.com. It is eventually intended that the current status of any survey being undertaken by them may be ascertained online through iSteelAsia.com.

Banks. Sellers customarily require buyers to procure trade finance against which the goods are shipped. The Group is currently working with ABN AMRO Bank, BNP Paribas and in advance discussion with a host of other local and international banks and financial institutions as value-added service providers to develop arrangements pursuant to which integrated financial and banking services will be available. Settlement options would involve the value-added service provider acting as the buyer's bank to open letters of credit or execute payment orders and acting as the seller's receiving bank. System integration would enable online reporting of the settlement status of each transaction and online selection of settlement and payment options. As there are already some established internet based payment gateways, the Group is also exploring the possibilities in forming some sort of alliance with these service providers.

Shipping. Depending on whether a transaction is free on board or cost and freight, the buyer or, as the case may be, the seller, has to arrange shipping. The responsible party currently has to fax or telephone as many shipping companies in the Asia Pacific region as possible. The Group is working with Cosco (H.K.) Shipping Co., Ltd. to offer iSteelAsia.com's users an online shipping schedule and booking facility. In addition to discussions with shipping companies, the Group is also exploring various scenarios that may involve other logistic providers both online and offline.

Insurance companies. The shipment of goods purchased through iSteelAsia.com has the benefit of a cargo insurance facility which is currently underwritten by Federal Insurance Company, a member of the Chubb group of insurance companies, through Houlder Insurance Brokers (Far East) Limited. The Directors believe that it will eventually be possible to integrate the issuance of cargo certificates online. The Directors also believe that there will be opportunities to enter into further arrangements with other insurance companies in respect of add-on insurance terms.

Management Discussion and Analysis

Content providers. Steel industry participants are interested in up to the minute news and information which may have impact on the steel industry. The Group has entered into an agreement with Reuters Hong Kong Limited to provide information for the iSteelAsia.com website for two years upto the first quarter of 2002. The Directors are also planning to enter into further arrangements with Asian Information Resources (Holdings) Limited, Public Resource Group and Korea Metal Journal to enrich the content of Industry Info.

BORROWINGS AND BANKING FACILITIES

Prior to the launching of iSteelAsia.com, the Group's traditional steel trading operation was financed by the banking facilities provided by the VSC Group. The VSC Group entered into trade financing arrangements with various banks on behalf of the Group to finance the Group's traditional steel trading operation. The tenor of the trade receipts loans is usually in the range of three to four months. Sales proceeds from the Group's traditional steel trading operation was used to finance the development of the internet business and to repay the outstanding trust receipt loans via the shareholders' loan arrangement with the VSC Group. Due to the tremendous growth of traditional steel trading operation and development of iSteelAsia.com, the Group started to negotiate with banks for direct trade financing in March 2000. As at 31st March, 2000, the Group borrowed bank loans of HK\$25,000,000 to finance its working capital, which were subsequently repaid after the listing of the Group.

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

Subsequent to the year end date, the Company's shares were listed on the GEM of the Stock Exchange on 20th April, 2000 and net proceeds of approximately HK\$82.0 million were successfully raised from the Placing and an option exercised by the underwriter. This is in addition to the HK\$57.6 million raised from an earlier pre-placing fund raising exercise. The Directors believe that the net proceeds of the Placing will strengthen the Group's capital base and will provide funding for the Group to achieve its business objectives. Subject to unforeseen circumstances, the Directors intend to use such net proceeds in the manner as disclosed in the Company's prospectus dated 14th April, 2000 ("the Prospectus").

Management Discussion and Analysis

STAFF

As at 31st May, 2000, the Group had 62 full-time employees and overseas representatives. An analysis by function is as follows:

Business Development	24
Corporate Support	10
Technology	12
Strategic Alliance	8
Traditional Steel Trading	4
Finance	4
Total:	62

An analysis by geographical locations is as follows:

Hong Kong	46
The PRC (comprising Beijing, Shanghai and Guangzhou)	8
Rest of Asia	6
Europe and the United States of America	2
Total:	62

Company's relationship with staff

The Group has not experienced any labour disputes which led to the disruption of its normal business operations. The Directors consider that the Group maintains a good relationship with its employees.

Management Discussion and Analysis

INVESTOR AND PUBLIC RELATIONS

The Group is committed to provide updated information and transparency to its stakeholders through a comprehensive public relationship program that includes public relationship meetings, visit and updates with colleagues from the steel industry, financial and fund managers communities as well as the media. In addition, the Group will always maintain a copy of all of its announcements, interviews, and financial information on its website (URL: <http://www.isteelasia.com>) to provide our business partners, shareholders, and the general public with a source of updated information about iSteelAsia.com Limited.



Membership

Users of iSteelAsia.com are classified as either visitors or Corporate Members or Founding Members. Membership is free. As at 31st May, 2000, iSteelAsia.com had 496 Corporate Members.

The following table sets out the functional accessibility, posting privileges, registration requirements and other benefits for the three types of users:

Identity	Functional Accessibility	Posting Privileges	Registration Requirements	Other Benefits ⁽¹⁾
Visitors	<i>The Steel Talk and some Industry Info</i>	Nil	Not required	Nil
Corporate Members	<i>Full access to all contents on iSteelAsia.com</i>	<i>Online Procurement, Online Auction and The Steel Talk</i>	Company Registration ⁽²⁾ Verification ⁽³⁾	— ⁽⁴⁾
Founding Members	<i>Full access to all contents on iSteelAsia.com</i>	<i>Online Procurement, Online Auction and The Steel Talk</i>	By invitation only	Revenue Options

Notes:

- (1) All Members are entitled to receive iSteelAsia.com's proprietary news.
- (2) Both online and offline applications for Corporate Members are available.
- (3) The identity and creditability of each Corporate Member applicant are verified by the Group with the assistance of several credit checking companies. Verification takes between one and three weeks.
- (4) The Directors are currently exploring the possibility of establishing a loyalty rebate scheme to encourage Corporate Members to use iSteelAsia.com as their major sales and purchasing channel. The percentage of the commission to be rebated would be determined by reference to the annual turnover of sales effected through iSteelAsia.com.

Membership

Commission Rates

iSteelAsia.com's commission rates, which are expressed as a percentage of the transaction value and are subject to change, are currently as follows:

	Seller		Buyer
	Flat products, Specialties	Long products, Raw materials	All products
Online Procurement	0.60 – 1.00%	0.10 – 1.00%	Free
Online Auction	0.90 – 1.50%	0.15 – 1.50%	Free

The Directors believe that the rates being charged are competitive when compared with other online Internet-based competition. However, these rates will be reviewed regularly to ensure they remain competitive.

Founding Members

Established international steel enterprises are being identified as the Founding Members. The number of Founding Members is expected to be limited. Founding Members will enjoy all of the benefits and privileges available to Corporate Members. The Directors believe that the reputation and leading industry standings of the Founding Members will provide liquidity, promote to the success of iSteelAsia.com and will encourage other participants in the industry to become Corporate Members.

To incentivise Founding Members to channel their transactions through iSteelAsia.com, Founding Members may, in certain circumstances, become entitled to purchase up to an aggregate amount of 102,400,000 shares of the Company upon exercise of the Revenue Options. Each Founding Member's entitlement to Revenue Options is to be set out in a Revenue Option Agreement. Once a Founding Member enters into a Revenue Option Agreement, the name of the Founding Member will be disclosed on the iSteelAsia.com website. The Revenue Option Agreements would include the following provisions. The exercise price will be equivalent to an amount per share equal to 5 per cent. of the issue price which is HK\$1.08 per share when the Company went public in April 2000. The determination of the exercise price for the Revenue Options was based on commercial terms after taking into account, among other things, the reputation, business connections and anticipated future contribution to the iSteelAsia.com steel trading platform of the Founding Members.

Each participating Founding Member's entitlement to a proportionate share of the available number of shares will be based on the volume of steel products that are transacted, if at all, by the Founding Member through the iSteelAsia.com website.

Membership

At the current stage, no formal agreement has been executed but the Company has already selected a group of Founding Member candidates, and are having very productive discussions with this selected group of Founding Member candidates. Through these recent discussions, the management envisages the need to modify some terms in the Founding Member scheme as outlined in the Revenue Option Agreement mentioned in the Prospectus. These modifications are made with an intention to provide a more attractive scheme to motivate the Founding Members to utilise the iSteelAsia.com platform as soon as possible. Nevertheless, these modifications will have minimal impact to the capital structure of the Company, as the total number of shares on offer by the administrator of the scheme, i.e. TN Development Limited, remains unchanged.

The selection of the Founding Members under the Revenue Option Agreement is based on, inter alia, their reputations in the industry, their business connections and the anticipated contributions to the Company, in particular, the iSteelAsia.com steel trading platform, in the future.

Corporate Members

Any company engaged in the buying and selling of steel products or services may become a Corporate Member if it passes iSteelAsia.com's verification process which includes, among other things, bank references, credit checks and industry soundings. In addition to access to the news and content available on the site and the right to post information, a Corporate Member is able to offer steel products for sale and to engage in negotiations via iSteelAsia.com and close transactions with other Corporate Members. Corporate membership may be terminated by either the Corporate Member or iSteelAsia.com by notice in writing.

Services Provided by iSteelAsia.com

Currently, four core services are offered by iSteelAsia.com to its Members and visitors. (where applicable)

- Online Procurement
- Online Auction
- Industry Info
- The Steel Talk

ONLINE PROCUREMENT

Online Procurement enables buyers and sellers to effect an online purchase of products in three basic steps — the posting of a request by the posting buyer, counter offering of a quote by a potential supplier, and then negotiation and completion of the transaction at a single stop.

Services Provided by iSteelAsia.com

Procurement procedures:

Step 1 — Posting a request (the buyer side)

Buyer uses Tendor Posting Form to raise product information, terms and conditions, and offer criteria.

Tendor Posting Form

The screenshot shows the 'Tendor Posting Form' on the iSteelAsia.com website. The form is divided into several sections: 'Product/Description', 'Terms and Conditions', 'Posting', 'Payment Terms', 'Company Details', and 'Submission'. Callouts provide the following information:

- Fields with * are mandatory**: Points to the 'Product/Description' section.
- Please here to insert product related static information**: Points to the 'Product/Description' section.
- Buyer may restrict seller's company location and type by inputting restriction criteria here**: Points to the 'Company Details' section.
- Please here to enter inputted data as a template**: Points to the 'Submission' section.
- Please here to delete template (deleted, if any)**: Points to the 'Submission' section.
- Please here to submit data inputted**: Points to the 'Submission' section.

iSteelAsia.com will then match the seller restriction information with the member list through an automated matching mechanism. Qualified members will receive email invitations to offer their quotes.

Services Provided by iSteelAsia.com

Step 2 — Offering a quote (the seller side)

Seller may browse through Tender Bidding List and open interested tender to view the details.

Tender Bidding List

The screenshot displays the iSteelAsia.com website interface. The main content area is titled "Online Trading Center" and "Online Procurement". It features three tables of tender listings. A callout box with a pointer indicates that clicking on the "Needs Produced" link for tender P224 will lead to the tender details.

Tender Bidding List (Flat Products)

Tender ref no.	Product Description	Closing date	Status
P225	Prime Stock	17/05/2000 16:15	
P226	Prime Stock	17/05/2000 15:15	
P224	Needs Produced	13/05/2000 11:00:00	Closed
P219	Over Rollo/Surplus	12/05/2000 14:00:00	Closed
P218	Over Rollo/Surplus	12/05/2000 14:00:00	Closed

Tender Bidding List (Tubular (Pipe and Tubing))

Tender ref no.	Product Description	Closing date	Status
P174	Needs Produced	15/04/2000 10:00:00	Closed

Tender Bidding List (Specialty)

Tender ref no.	Product Description	Closing date	Status
P171	Prime Stock	15/04/2000 10:00:00	Closed

Services Provided by iSteelAsia.com

Tendor Particular shows the details of a tender. Seller may proceed to make offer from this page.

Tendor Particular

The screenshot displays the iSteelAsia.com website interface. The left sidebar contains navigation links such as 'Home', 'Search', 'English', 'About iSteelAsia', 'Online Trading Center', 'Industry Info', 'Site Info', 'The Steel Fair', 'Account Management', and 'Suggestion Box'. The main content area is titled 'Online Trading Center' and 'Online Procurement'. It features several sections: 'Current Status' (New Tender Received), 'Tender Version List' (Version 1), and 'Newest Tender/Adjustment Received'. The tender details include Reference No. P225, Product Category Flat Rolled - Hot Rolled Coils and Sheets, Product Description Prime Stock, Standard SAE1008, Quality hot rolled coils and sheets, Size 3mm x 1250mm x C, Mill Origin Korea, Quantity 1300, and Shipment 20/05/2000 to 25/05/2000. The 'Terms and Conditions' section lists insurance (To be covered by Buyer), other documents (Bill of Lading, Certificate of Origin, Seller's Packing List), packing (Packing in protected coils of approx 2 MT each), partial shipment (Not Allowed), price term (CIF), payment term (By sight confirmed irrevocable Letter of Credit), shipping marks (Seller's Option), and transshipment (Not Allowed). At the bottom, it shows Delivery Tolerance +/- 10%, Currency USD, Expected Price 260, Closing Date & Time 17/05/2000 16:15:00, and an 'Additional Information' section. A yellow 'ADD PROPOSAL' button is prominently displayed, with a callout box pointing to it that reads: 'Press this to open "Offer Posting Form" to make offer to this tender'. Below the button is a link 'Back to Tender Bidding List'. The footer contains the iSteelAsia logo and copyright information: 'Copyright © 1999-2000 iSteelAsia.com'.

Services Provided by iSteelAsia.com

Seller may modify the details before submitting to the buyer using Offer Posting Form. All quotes will be immediately directed to the buyer's response list.

Offer Posting Form

The screenshot shows the 'Offer Posting Form' on the iSteelAsia.com website. The form is titled 'Add Offer' and is used for submitting product offers. It includes various input fields for product details, terms, and pricing. Annotations highlight specific features and actions:

- Fields with * are mandatory:** A callout box points to the 'Product description', 'Standard', 'Quality', 'Size', and 'Qty' fields, which are marked with an asterisk.
- Save as Template:** A callout box points to the 'SAVE' button, with the instruction 'Press here to save inputted data as a template'.
- Delete Template:** A callout box points to the 'DELETE' button, with the instruction 'Press here to delete template loaded, if any'.
- Submit:** A callout box points to the 'POST' button, with the instruction 'Press here to submit data inputted'.

The form fields include:

- Product Category:** Flat Rolled - Hot Rolled Coils and Sheets
- Product Description:** *Plain Sheet
- Standard:** *JIS G 3101
- Quality:** *SPC CH140 511L 404 3047A
- Size:** *mm x mm x t
- Qty:** *200
- Origin:** Korea
- Quantity/Tons:** 200
- Shipment:** *20 May 2008 to 20 May 2008
- Terms and Conditions:**
 - Insurance:** To be covered by Buyer
 - Other Documents:** *Please add the terms and conditions
 - Packing:** *Please choose the terms and conditions
 - Partial Shipment:** Not Allowed
 - Price Term:** *F
 - Payment Term:** *By sight confirmed irrevocable Letter of Credit
 - Shipping Method:** *Seller's Option
 - Trade Payment:** Not Allowed
- Effective Date:** 20 May 2008
- Delivery Tolerance:** 1-10%
- Currency:** USD
- Price:** 20
- Dynamic:**
- Attach file:**

Buttons at the bottom: SAVE, DELETE, POST, CLEAR.

Services Provided by iSteelAsia.com

Step 3 — Negotiation and completion of the transaction

Buyer may compare the content between tender and offer through Offer Particular. The buyer can then choose to accept, negotiate or reject those quotes.

Offer Particular

Offer Particular

Offer Version List		
Version		
Tender PO# or Offer OQ#		
	Tender Particulars	Offer Particulars
Tender's	---	Information not available
Grading	---	---
Reference No.	PO#	OQ#
Version	1	1
Product Category	Hot Rolled - Hot Rolled Coils and Sheets	Hot Rolled - Hot Rolled Coils and Sheets
Product Description	Prime Steel	Prime Steel
Incoterms	---	---
Standard	SAE 1008	SAE 1008
Size	3mm x 1219mm x C	3mm x 1219mm x C
Mill Origin	Korea	Korea
Quantity	1000	1000
Shipment	2010-08-01 to 2010-08-01	2010-08-01 to 2010-08-01
Terms and Conditions		
Insurance	To be covered by Buyer	To be covered by Buyer
Other Document	Bill of Lading Certificate of Origin Seller's Packing List	Bill of Lading Certificate of Origin Seller's Packing List
Packing	Packing in protected coils of approx 2 MT each	Packing in protected coils each
Partial Shipment	Not Allowed	Not Allowed
Price Term	EX	EX
Payment Term	By sight confirmed irrevocable Letter of Credit	By sight confirmed irrevocable Credit
Shipping Mode	Seller's Option	Seller's Option
Transportation	Not Allowed	Not Allowed
Delivery Tolerance	+/- 5%	+/- 5%
Currency	USD	USD
Price	Export Price: 200	Proposed Price: 200
Date Order/Ten	10/05/2010 to 11/05/2010	---
Effective Order/Ten	---	10/05/2010 to 09/06/2010
Remark	---	---
Attachment	File	File

Please Make Decision

DECLINE OFFER ACCEPT OFFER EDIT OFFER

Press here to reject this offer

Press here to accept this offer

Press here to open "Add Tender Adjustment Form" to modify original tender content

Particular content will be in RED if the offer is not matched with the tender

- Declined sellers will receive email notification;
- Seller's information will be disclosed if its quote is accepted; and
- It is also obliged to pay a commission to iSteelAsia.com.

Services Provided by iSteelAsia.com

ONLINE AUCTION

Online Auction enables buyers or sellers to effect an online sales of products in three basic steps — the self-posting of a product by the seller, the counter offering of a quote by a potential purchaser and then negotiation and completion of the transaction.

Services Provided by iSteelAsia.com

Step 1 — Self-posting (the seller side)

Seller uses Auction Posting Form to raise product information, terms and conditions, and bidding criteria.

Auction Posting Form

The screenshot displays the 'Online Auction Posting Form' on the iSteelAsia.com website. The form is divided into several sections: 'Product Information', 'Terms and Conditions', 'Auction Type', and 'Buyer Restrictions Form'. Callouts provide the following explanations:

- Press here to insert predefined status information:** Points to the 'Auction Status' dropdown menu.
- Fields with * are mandatory:** Points to the 'Product Description' field.
- Press here to save inputted data as a template:** Points to the 'Save as Template' button.
- Press here to delete template loaded, if any:** Points to the 'Delete Template' button.
- Press here to submit data inputted:** Points to the 'Submit' button.
- If "Open Bid" is selected, bidders may view all bid history for this auction. If "Close Bid" is selected, bidders are only allowed to view their own bid history:** Points to the 'Auction Type' dropdown menu.
- Seller may restrict buyers' company location and type by inputting restriction criteria here:** Points to the 'Company Location' and 'Company Type' dropdown menus.

iSteelAsia.com will then match the posting criteria with potential buyers through an automated matching mechanism. Qualified buyers will receive email invitations to offer their bids.

Services Provided by iSteelAsia.com

Step 2 — Bidding (the buyer side)

Buyer may browse through the Bidding List and open interested auction to view the details.

Bidding List

Online Trading Center
Online Auction
 Bidding is with time limit. To open, go to [Bidding List](#).

Bidding List (Raw Materials)

Reference Number	Auction Particulars	Closing Date (GMT Time)	Status
A77	One Shot/Cutsize	15040000 00:00:00	Closed

Bidding List (Long Products)

Reference Number	Auction Particulars	Closing Date (GMT Time)	Status
A78	Semi-finished	15040000 00:00:00	Closed
A83	Semi-finished	15050000 00:00:00	Ongoing

Bidding List (Flat Products)

Reference Number	Auction Particulars	Closing Date (GMT Time)	Status
A103	Flat-Steel	02060000 00:00:00	Closed
A108	Semi-finished	02060000 00:00:00	Closed
A109	Flat-Steel	15050000 00:00:00	Closed
A110	Semi-finished	11050000 00:00:00	Closed
A111	Semi-finished	11060000 00:00:00	Ongoing

Bidding List (Tubular (Pipe and Tubing))

Reference Number	Auction Particulars	Closing Date (GMT Time)	Status
A79	Semi-finished	14040000 00:00:00	Closed
A80	Flat-Steel	14040000 00:00:00	Closed

Bidding List (Specialty)

Reference Number	Auction Particulars	Closing Date (GMT Time)	Status
A81	One Shot/Cutsize	05040000 00:00:00	Closed
A76	Flat-Steel	20050000 00:00:00	Ongoing

Click to open auction particular

Services Provided by iSteelAsia.com

Auction Particular shows the details of an auction, including product information, terms and conditions. Buyer may submit bidding through this page.

Auction Particular

The screenshot displays the 'Online Auction' page on iSteelAsia.com. The page is divided into several sections: 'Auction Particulars', 'Terms and Conditions', 'Remarks', and a bidding form. Callouts provide instructions for users: 'Buyer to fill in bid price and quantity here' points to the input fields; 'Press this button to submit bidding' points to the 'Bid' button; and 'Buyer to fill in counter proposal on terms and conditions, if any' points to the 'Bidder Remarks' text area.

Auction Particulars

- Reference Number: **AM1**
- Trader's Credit: **Information not available**
- Product Category: **Flat Rolled - Hot Rolled Coils and Sheets**
- Product Description: **Heavy Product**
- Standard: **S40C500**
- Quality: **Hot rolled coils and sheets**
- Size: **2mm x 1250mm x C**
- Mill Origin: **Korea**
- Shipment: **2005-2006 to 2005-2006**

Terms and Conditions

- Delivery Tolerance: **±1.0%**
- Insurance: **To be covered by Buyer**
- Other Document: **Commercial Invoice, Seller's Packing List, Certificate of Origin**
- Packing: **Packing in protected coils of approx 2 MT each**
- Port of Shipment: **Not Allowed**
- Price Term: **CFR**
- Payment Term: **By sight confirmed irrevocable Letter of Credit**
- Shipping Marks: **Seller's Option**
- Transportation: **Not Allowed**

Remarks

- Date/Time: **07:05:0000 00:00:00**
- Currency: **USD**
- Expected Price: **250**
- Quantity: **1000**

Bidding Form

- Buy Price (USD):
- Quantity (tons):
- Bidder Remarks:

Bid History (Can bids will be hidden)

Qty	Bid Price	Date of Bid (24 Time)
1000	250	06:05:0000 00:00:00

[Back to Bidding List](#)

Services Provided by iSteelAsia.com

Step 3 — Completion of the transaction

Items listed under the Posting List are the products posted for auction by the seller.

Posting List

The screenshot shows the iSteelAsia.com website interface. The main content area is titled "Online Trading Center" and "Online Auction". Below this, there is a "Posting List (Flat Products)" table. The table has three columns: "Reference Number", "Auction Particulars", and "Closing Date (HK Time)". The table lists several auction items, including A113 through A121. A callout box points to the "POST ITEM" button, stating "Press here to open 'Auction Posting Form' to post new auction". Another callout box points to the "Auction Particulars" column, stating "Click here to open auction particular".

Reference Number	Auction Particulars	Closing Date (HK Time)
A113	Prime Stock	12/05/2000 10:30:00
A114	Prime Stock	12/05/2000 10:30:00
A115	Prime Stock	12/05/2000 10:45:00
A116	Prime Stock	12/05/2000 11:45:00
A117	Prime Stock	14/05/2000 10:30:00
A118	Newly Produced	17/05/2000 00:00:00 Ongoing
A119	Newly Produced	17/05/2000 00:00:00 Ongoing
A120	Newly Produced	17/05/2000 00:00:00 Ongoing
A121	Prime Stock	17/05/2000 00:00:00 Ongoing

Services Provided by iSteelAsia.com

Seller may view the bidding status from the Auction Particular and decide winner(s) for this auction on this page.

Auction Particular

The screenshot displays the iSteelAsia.com website interface. The main content area is titled "Online Trading Center" and "Online Auction". It features a section for "Auction Particulars" and a "Bid History" table. A "Select Winner" button is visible below the bid history table. Three callout boxes provide instructions: one explains that the auction has two bidders and the seller can choose either; another explains that the "Select Winner" button appears when the closing date is reached; and the third explains that pressing the button confirms the winner(s).

Auction Particulars

Reference Number: A188
Product Category: Flat Rolled - Hot Rolled Coils and Sheets
Product Description: Newly Produced
Standard: SAE1008
Quality: Hot rolled coils and sheets
Size: 2mm x 1250mm x C
Mill Origin: Korea
Shipment: 20/05/2000 to 26/05/2000

Terms and Conditions

Delivery Tolerance: +/- 10%
Insurance: To be covered by Buyer
Other Document: Commercial Invoice, Seller's Packing List, Certificate of Origin
Packing: Packing in protected coils of approx 2 MT each
Partial Shipment: Not Allowed
Price Term: CIF
Payment Term: By sight confirmed irrevocable Letter of Credit
Shipping Marks: Seller's Option
Transshipment: Not Allowed

Bidder Remarks

Auction Type: OPEN
Close Date/Time: 17/05/2000 00:00:00
Currency: USD
Expected Price: 280
Quantity: 1200 tons

Bid History

Bid Reference	Bidder Remarks	Quantity	Bid Price	Date of Bid (H:K Time)
<input type="checkbox"/> 286		1200	278	16/05/2000 19:15:00
<input type="checkbox"/> 282		1000	275	16/05/2000 16:11:30

Select Winner

Callout 1: This auction has two bidders. Seller may select either one or both

Callout 2: This button will appear when the closing date is reached

Callout 3: Press this button to confirm winner(s) after selection

Services Provided by iSteelAsia.com

INDUSTRY INFO

Currently, this content service has been designed to enable Members and visitors to access a comprehensive array of information sites in five categories:

The screenshot displays the iSteelAsia.com website interface. The top navigation bar includes 'Home', 'Search', and 'Welcome to iSteelAsia'. A language dropdown menu is set to 'English'. The left sidebar contains several menu categories: 'About iSteelAsia' (Mission, Management, Affiliates, Press Room, Career Opportunities), 'Online Trading Center' (Daily Auction, Daily Procurement, Auctions/Markets, Transactions Status, Terms/Room), 'Industry Info' (Hyperlinks Library, Industry Calendar, Industry News, Industry Reports, Industry Standards), 'Site Info' (Site Map, Contact Us, FAQ, Privacy Policy), 'The Steel Talk' (Market Talk), 'Account Management' (My SteelAsia, Register Here, Profile Update), and a 'Suggestion Box' with a user icon. The main content area is titled 'Industry Info' and lists five categories with brief descriptions: 'Hyperlinks Library' (comprehensive library of industry-related organizations), 'Industry Calendar' (automatically updated business calendar), 'Industry News' (archive of latest industry-related news), 'Industry Reports' (links to valuable reports), and 'Industry Standards' (vital industry and production standards for major steel production countries). The footer contains a navigation menu and a copyright notice: '© 1999-2000 iSteelAsia.com'.

Services Provided by iSteelAsia.com

THE STEEL TALK

The Steel Talk provides an online open forum for the registered Members to exchange opinions, share ideas and chat with each other on interesting subjects in the steel industry.

All registered Members are welcome to chat and share their ideas. Threaded message posting and retrieval are enabled. All users are welcome to browse, search and read information under this category.

Directors, Adviser, and Senior Management

DIRECTORS

Executive directors

Mr. Andrew Cho Fai Yao, aged 35, is the Chairman of the Board and the Chief Executive Officer of the Group. He primarily focuses on formulating strategic business alliances for the Group. He has been with the Group since the establishment of the trading operation in April 1997. He graduated from the University of California, Berkeley with a bachelor degree in finance and obtained a master of business administration degree from the Harvard University Graduate School of Business Administration. Mr. Yao has extensive experience in the steel trading business and is the chairman of VSC. He currently sits on the board of various business and construction industry associations including the Hong Kong Housing Society and Federation of Hong Kong Industries and was the President of Harvard Business School Association in Hong Kong. Mr. Yao is the brother of Ms. Miriam Che Li Yao.

Ms. Miriam Che Li Yao, aged 36, is the Deputy Chairman of the Board and primarily focuses on formulating strategic business alliances and establishing arrangements with value-added service providers. She has been with the Group since the formal establishment of the trading operation in April 1997. She is a certified public accountant in the United States and received her bachelor of science degree in accounting from the University of Southern California. Ms. Yao is an executive director of VSC and has many years of experience in the steel industry. Prior to joining the VSC Group in 1991, Ms. Yao previously worked with Arthur Andersen & Co and Bankers Trust Company. Ms. Yao is the sister of Mr. Andrew Cho Fai Yao.

Ms. Drina C. Yue, aged 43, is a Director and the Chief Operating Officer of the Group. She joined the Group in March 2000 and is responsible for the implementation of the Group's overall strategic planning and operations. Ms. Yue holds a bachelor degree in electrical engineering and a master degree in computer science from the University of Illinois, Urbana. Ms. Yue has over 20 years of multi-functional experience in the telecommunications field, during part of which time she held various senior management positions with international conglomerates overseeing business developments and regional operations such as Motorola in China before joining the Group. Ms. Yue also holds 3 US patents.

Non-executive directors

Mr. Moses Kwok Tai Tsang, aged 51, is a Director. He has been with the Group since June 1999. He holds a BA degree from the State University of Minnesota and a MSW degree from the University of Iowa, and has also completed post-graduate work at the University of Chicago. Mr. Tsang was previously with Goldman Sachs from 1978 to 1999, during which he was a general partner of Goldman Sachs from 1988 to 1994 and was appointed Chairman and Managing Director of Goldman Sachs (Asia) LLC from 1989 to 1994. Since his retirement from the above positions at the end of 1994, Mr. Tsang has remained a limited partner of Goldman Sachs and was appointed Senior Advisor to Goldman Sachs (Asia) LLC for the period from January to September 1999. Mr. Tsang is also a non-executive director of VSC and holds directorship with a number of companies principally engaged in Internet-related businesses.

Directors, Adviser, and Senior Management

Ms. Lena Foo, aged 35, is a Director and is primarily responsible for developing strategic alliances with business partners for, and providing e-commerce business strategy consultancy and technological support to, the Group. She has been with the Group since June 1999. Ms. Foo graduated from the Carnegie-Mellon University in the United States with a bachelor of science degree with a concentration on information technology and psychology. She has over a decade's experience of business and product development in the technology/e-commerce industry. Ms. Foo is a co-founder and an executive director of iMerchants Limited.

Mr. Daniel Takuen Shih, aged 48, is a Director. Mr. Shih has over 20 years of experiences in management and marketing in the information and technology sector with multinational corporations in the United States, Japan, Korea and Hong Kong. He joined the Group in March 2000. He has been involved in setting up sales and marketing channels, distributors, joint-venture companies for the offerings of eCommerce, EDI and value-added network services throughout Asia-Pacific. Mr. Shih is specialised in the consulting fields of eCommerce, Supply-Chain Management, and Information Technology. He holds a master degree in electrical and computer engineering from University of Cincinnati. Currently, Mr. Shih is the managing director of Service Industries for Ernst & Young Asia-Pacific Global Client Consulting Group.

Independent non-executive directors

Mr. Yeung Kwok Keung, aged 52, is a Director. Mr. Yeung has been engaged in international transportation and logistics since the early 1970s. He joined the Group in March 2000. He has been involved with the design, development and management of some of the world's largest automated high capacity air cargo facilities in the last 25 years. He has also been involved in the innovative application of information technology to the air cargo industry and in the promotion of its use in his professional and public capacities. Mr. Yeung is the Chief Operating Officer of EC.com Limited.

Mr. Philip King Huen Ma, aged 43, is a Director. Mr. Ma is the Group Managing Director of The Sincere Company, Limited, a listed company on the Stock Exchange. He joined the Group in March 2000. The principal activities of The Sincere Company, Limited consist of the operation of department stores, the rental of properties, property development, securities trading and the operation of restaurants. Mr. Ma holds a master of business administration degree from McMaster University in Canada and is currently in charge of all aspects of the operations of The Sincere Company, Limited. Mr. Ma has also been the Chairman of Hong Kong Retail Management Association, a major retail industry association in Hong Kong with 600 member companies, since 1996.

ADVISER

Professor David B. Yoffie, aged 45, is the Adviser to the Group. Professor Yoffie is the Max and Doris Starr Professor of International Business Administration at Harvard Business School and has been a member of the faculty since 1981. Professor Yoffie received his Masters degree and Ph.D. from Stanford University. Professor Yoffie is currently chairman of the Competition and Strategy Department and chairman of the Advanced Management and International Senior Management Programme. Professor Yoffie's research and consulting services have focused on competitive strategy and international competition. Professor Yoffie's

Directors, Adviser, and Senior Management

activities include being on the Board of Directors of Intel Corporation, E-Ink Corporation, the National Bureau of Economic Research, and a private biotechnology company, as well as chairman of the advisory board of a European venture capital firm. He also serves on the Executive Committee for Harvard's Centre for International Affairs, and the Department of Justice's International Competition Policy Advisory Committee. Professor Yoffie has lectured and consulted in more than 25 countries around the world with large industrial and service firms as well as governments and international organizations.

Professor Yoffie's writings on business strategy and technology have been widely published. Professor Yoffie is the author, or editor of seven books, including *Competing in the Age of Digital Convergence*, (Harvard Business School Press, 1997), *Strategic Management in Information Technology* (Prentice Hall, 1994), and *Beyond Free Trade Firms, Governments and Global Competition* (Harvard Business School Press, 1993) His most recent book, *Competing on Internet Time: Lessons from Netscape and its Battle with Microsoft* (Free Press, 1998), was named by *Business Week* and Amazon.com as one of the top 10 business books of 1998. Co-authored with Professor Michael Cusumano. *Competing on Internet Time* has been translated into Japanese and Chinese, and became a highly publicized component of the Microsoft–Department of Justice anti-trust trial. Professor Yoffie has also written several pieces for the *New York Times*, *The Wall Street Journal*, *The Harvard Business Review*, as well as numerous scholarly and managerial articles on international trade, firm strategy and global competition in high technology industries. Professor Yoffie has also published more than 70 case studies on business strategy and international management issues, which have sold more than one million copies.

SENIOR MANAGEMENT

Mr. Sean Wan, aged 45, is the Group's Chief Information Technology Officer. He is responsible for the e-Commerce development and Information Technology of the Company, providing strategic directions, overseeing development and data center operations, and liaise with the business and consulting partners to ensure a robust and best-in-class B2B steel trading web site for the Company.

Prior to joining the Company in March 2000, Mr. Wan held a senior management position for B2B e-Business development at 3Com Corporation in California. Mr. Wan has over 15 years of experiences with Seagate Technology, Inc. in global information systems design, development and management in US and Asia. During his tenure at Seagate, Mr. Wan originated and developed advanced and innovative systems later adopted by the industry as standards. He is the key developer and architect for the Web enabled high availability OLTP systems that have been regarded as the leading systems of the industry worldwide. His accomplishments earned him numerous high achiever awards and he has been granted Key Employee by Seagate Technology.

Mr. Wan graduated with Bachelor and Master Degrees in Industrial Engineering and Operations Research with honor from the University of Illinois, Urbana. Mr. Wan is the brother of Ms. Drina C. Yue.

Directors, Adviser, and Senior Management

Mr. Philip Lee Ming, aged 44, is the Vice President of Global Business Development of the Group. He is responsible for spearheading the Group's growth on a global level, as well as its overall business and product development.

Prior to joining the Company in March 2000, Mr. Lee has a wealth of experience in the steel industry, product development and risk management, having notched up almost 20 years with industry giant, Commercial Metals Company (NYSE: CMC), with previous postings in Hong Kong, Singapore and Switzerland. His last position with CMC was as Managing Director in Singapore, where he oversaw business developments and regional operations for six years until 1998. Immediately prior to joining the Company, Mr. Lee joined Steeleast Pte. Ltd. in Singapore as Managing Director where he further enriched his expertise in the Asian steel industry.

Mr. Lee holds a BBA (Hons) from the Chinese University of Hong Kong.

Mr. Jack Lee, aged 32, is the Group's Strategic Alliance Director, Head of the Strategic Alliance. Mr. Lee will focus on developing strategic relationships with Value-Added Services partners in logistics, insurance, finance, inspection and content that can help the Company complete its strategy to fully integrate the steel supply chain.

Mr. Lee has many years of international experiences in steel trading with Okura & Co., in Japan as well as Beijing. During his stay in Tokyo and Beijing, Mr. Lee managed in-depth knowledge and relationships with regional mills, traders, service centers and end-users.

In 1997 Mr. Lee joined Emerson Electric and moved to Hong Kong. Leading the strategic sourcing efforts for all of Emerson's Asia Steel sourcing, Mr. Lee negotiated with Japanese steel suppliers for long-term agreements. At the same time, Mr. Lee had also been developing supply base strategy, commodity strategy and leading cross divisional/functional teams to achieve team objectives. Mr. Lee also led the company's e-procurement efforts in implementing reverse-auction strategies for centralised e-sourcing.

Mr. Lee holds a bachelor degree in Asian Studies/Chinese Literature from the University of British Columbia in Canada and also a M.B.A. from Hong Kong University of Science and Technology.

Ms. Sandra Lee, aged 44, is the Group's Director of Customer Relationship Management and is responsible for Customer Relationship Management at *iSteelAsia.com*, overseeing all customer services, online marketing activities and public relations programs to ensure that customer relations and related services are maintained and continue to strengthen accordingly.

Ms. Lee has come from a varied marketing background. Prior to joining the Group in June 2000, Ms. Lee was a pioneer in the local e-commerce market having established a business-to-consumer website to serve a number of early e-shopper adopters, both overseas and locally, since September 1998. Ms. Lee has over 10

Directors, Adviser, and Senior Management

years experience in business-to-business marketing and customer relationship management with United Parcel Service and GTE Directories. She has also accumulated extensive consumer marketing experience while expanding the consumer franchise of the popular soft drink brands Pepsi, 7UP and Schweppes.

Ms. Lee graduated from Monash University, Australia, with a bachelor of economics degree. She is also a MBA candidate at the University of Warwick, UK.

Ms. Tse Sau Wai, aged 37, is the Company Secretary of the Group overseeing the company secretarial matters of the Group. Ms. Tse graduated with honours from The City University of Hong Kong with a bachelor of arts degree in accountancy. Ms. Tse is a Fellow of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Company Secretaries. She has over 10 years of experience in company secretarial practice. Ms. Tse joined the Company in March 2000.

Ms. Lee Wing Chee, aged 28, is the Financial Controller of the Group. Ms. Lee is responsible for the Group's financial management. Ms. Lee joined the Group in April 2000. Ms. Lee is an associate member of both the Hong Kong Society of Accountants and the Association of Chartered Certified Accountants. Ms. Lee received a bachelor of arts degree in accountancy from The Hong Kong Polytechnic University. Prior to joining the Group, Ms. Lee was the Finance Manager of International Paper — Asia Pacific region, and prior to that Ms. Lee was working with Arthur Andersen & Co.

Ms. Ivy Ho, aged 28, is the Senior Trading Manager of the Group. Ms. Ho is responsible for the Group's traditional steel trading business. Ms. Ho has been with the VSC Group since 1995 and joined the Group since the establishment of the trading operation in April 1997. Ms. Ho has over 10 years of experience in the steel trading industry.

Report of the Directors

(Amounts expressed in Hong Kong dollars)

The Directors have the pleasure of presenting the first annual report together with the audited financial statements of iSteelAsia.com Limited (“the Company”) and the companies listed in Note 1 to the accompanying financial statements (collectively referred to as “the Group”) for the year ended 31st March, 2000.

GROUP REORGANISATION AND BASIS OF PRESENTATION

The Company was incorporated in Bermuda on 10th February, 2000 as an exempted company under the Companies Act 1981 of Bermuda. Pursuant to a group reorganisation scheme in preparation for the listing of the Company’s shares on The Growth Enterprise Market (“the GEM”) of The Stock Exchange of Hong Kong Limited (“the Stock Exchange”), the Company became the holding company of the Group on 13th April, 2000. The Company’s shares were listed on the GEM of the Stock Exchange on 20th April, 2000.

Details of the group reorganisation scheme and the basis of preparation of the financial statements are set out in Note 1 to the accompanying financial statements.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in the trading of steel products, provision of procurement services and operation of an e-commerce vertical portal business for the provision of online steel trading services.

Analysis of the Group’s turnover by principal activities and by geographical locations, together with their respective contributions to profit (loss) attributable to shareholders for the year ended 31st March, 2000 is as follows:

a. By principal activities

	Turnover	Profit (Loss) attributable to shareholders
	\$’000	\$’000
Sales of merchandise	177,503	7,787
Commission from procurement services	1,189	991
Commission from online steel trading services	<u>1,382</u>	<u>(15,590)</u>
	<u>180,074</u>	<u>(6,812)</u>

Report of the Directors

(Amounts expressed in Hong Kong dollars)

b. By geographical locations*

	Turnover
	\$'000
Mainland China	162,285
Macau	16,508
Others	<u>1,281</u>
	<u><u>180,074</u></u>

* Turnover by geographical locations is determined mainly on the basis of the destination of shipments of merchandise for sales of merchandise and location of sellers for commission income.

No analysis of profit (loss) attributable to shareholders by geographical locations is presented as it was generally in line with the distribution of turnover set out above.

CUSTOMERS AND SUPPLIERS

For the year ended 31st March, 2000, the five largest customers of the Group accounted for approximately 71% of the Group's turnover. In addition, the largest customer of the Group accounted for approximately 36% of the Group's turnover.

For the year ended 31st March, 2000, Van Shung Chong Hong Limited, a subsidiary of Van Shung Chong (B.V.I.) Limited ("VSC BVI") which is a substantial shareholder and an initial management shareholder of the Company as defined in the GEM Listing Rules, was the only supplier of the Group and total purchases from Van Shung Chong Hong Limited constituted all of the Group's purchases for the year ended 31st March, 2000.

Save as disclosed above, none of the Directors, their associates, or any shareholders (which to the knowledge of the Directors owned more than 5% of the Company's share capital) had a beneficial interest in the Group's five largest customers and suppliers.

RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31st March, 2000 are set out in the combined income statement on page 55 of this annual report.

During the year, a group company declared and paid dividends amounting to \$9,000,000 to its former shareholder prior to the group reorganisation described in Note 1 to the accompanying financial statements. The Directors do not recommend the payment of a dividend and recommend that the accumulated loss of \$12,382,000 as at 31st March, 2000 be carried forward.

Report of the Directors

(Amounts expressed in Hong Kong dollars)

SHARE CAPITAL

Details of share capital of the Company are set out in Note 14 to the accompanying financial statements.

There are no provisions for pre-emptive rights under the Bye-laws of the Company or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

DISTRIBUTABLE RESERVES

As at 31st March, 2000, the Company did not have any distributable reserves.

MACHINERY AND EQUIPMENT

Details of movements in machinery and equipment during the year are set out in Note 11 to the accompanying financial statements.

PENSION SCHEME

Details of the pension scheme are set out in Note 15 to the accompanying financial statements.

SUBSEQUENT EVENTS

Details of the significant subsequent events are set out in Note 18 to the accompanying financial statements.

DIRECTORS

The directors who held office during the year and up to the date of this report were:

Executive directors

Mr. Andrew Cho-Fai Yao, Chairman	(Appointed on 21st February, 2000)
Ms. Drina C. Yue	(Appointed on 23rd February, 2000)
Ms. Miriam Che-Li Yao	(Appointed on 21st February, 2000)

Non-executive directors

Mr. Moses Kwok-Tai Tsang	(Appointed on 23rd February, 2000)
Ms. Lena Foo	(Appointed on 23rd February, 2000)
Mr. Daniel Takuen Shih	(Appointed on 23rd February, 2000)

Independent non-executive directors

Mr. Yeung Kwok Keung	(Appointed on 16th March, 2000)
Mr. Philip King-Huen Ma	(Appointed on 23rd March, 2000)

In accordance with bye-law 86(2) of the Company's Bye-laws, Ms. Drina C. Yue, Mr. Moses Kwok-Tai Tsang, Ms. Lena Foo, Mr. Daniel Takuen Shih, Mr. Yeung Kwok Keung and Mr. Philip King-Huen Ma, retire and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Report of the Directors

(Amounts expressed in Hong Kong dollars)

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors of the Company has entered into a service contract with the Company commencing from 1st April, 2000 in the case of Mr. Andrew Cho-Fai Yao, 1st March, 2000 in the case of Ms. Drina C. Yue and 1st April, 2000 in the case of Ms. Miriam Che-Li Yao. The term of each agreement is continuous unless terminated by not less than three months' notice in writing served by either party on the other without payment of compensation other than statutory compensation.

Save as disclosed above, none of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the employing company within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTERESTS IN SECURITIES

As at 31st March, 2000, the Company had no notice of any interests to be recorded under Section 29 of the Securities (Disclosure of Interests) Ordinance ("the SDI Ordinance") as the Company was not listed on the GEM of the Stock Exchange as at that date.

As at 20th April, 2000 (the date on which the Company's shares listed on GEM of the Stock Exchange), the Directors of the Company had the following interests in the shares of the Company within the meaning of the SDI Ordinance, as recorded in the Register of Directors' Interests required to be kept by the Company pursuant to Section 29 of the SDI Ordinance:

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

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

Report of the Directors

(Amounts expressed in Hong Kong dollars)

Notes:

1. As at 20th April, 2000, TN Development Limited ("TN") owns 245,760,000 Shares. Van Shung Chong (B.V.I.) Limited ("VSC BVI") owns 54% of the issued share capital of TN and Andrew Cho-Fai Yao owns 10% of the issued share capital of TN. The board of directors of TN comprises Andrew Cho-Fai Yao and Miriam Che-Li Yao.

All Shares held by TN are, or are intended to be, the subject of options exercisable, in certain circumstances, by designated employees and founding members pursuant to the share option agreements and the revenue option agreements, respectively as disclosed in the Company's prospectus dated 14th April, 2000. The sole purpose of TN is to provide an avenue to motivate the Company's employees and founding members while at the same time not incurring any dilution effect to the public investors of the Company.

2. As at 20th April, 2000, Huge Top Industrial Ltd. ("Huge Top") owns 159,811,344 Shares. Andrew Cho-Fai Yao directly and indirectly owns more than one-third of the issued share capital of Huge Top. The board of directors of Huge Top comprises Andrew Cho-Fai Yao and Miriam Che-Li Yao.
3. As at 20th April, 2000, VSC BVI owns 278,000,000 Shares and Huge Top owns approximately 56.04% of the issued share capital of Van Shung Chong Holdings Limited ("VSC"). Andrew Cho-Fai Yao is a director of VSC. VSC BVI is a wholly-owned subsidiary of VSC. The board of directors of VSC BVI comprises Andrew Cho-Fai Yao and Miriam Che-Li Yao.
4. 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.
5. Oboe Development Trading Limited ("Oboe") owns 51,200,000 Shares. MKT Holdings (Cayman Islands) LLC ("MKT") owns the entire issued share capital of Oboe, of which Moses Kwok-Tai Tsang is the sole director. Moses Kwok-Tai Tsang owns the entire issued share capital of MKT, of which he and his wife are the directors.
6. S & S Management Co. Ltd. ("S & S") owns 159,344 Shares. Philip King-Huen Ma is deemed to be interested in these 159,344 Shares.

(b) Employee options to purchase Shares from TN:

Name	Shares to be acquired under the employee options
Ms. Drina C. Yue (Note 1)	30,720,000
Mr. Daniel Takuen Shih (Note 1)	2,000,000

Note:

1. Each of Drina C. Yue and Daniel Takuen Shih has been granted an option to purchase 30,720,000 Shares and 2,000,000 Shares respectively from TN, at an exercise price per Share of \$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 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.

Report of the Directors

(Amounts expressed in Hong Kong dollars)

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 Board of Directors of the Company may, at their discretion, invite any employee of the Company or any of the group companies, including any executive directors, to take up options to subscribe for shares in the Company. The maximum number of shares in respect of which options may be granted under the share option scheme may not exceed 10% of the issued share capital of the Company. The scheme became effective upon the listing of the Company's shares on 20th April, 2000. No options have been granted to the Directors up to the date of this report.

Save as disclosed above, and other than in connection with the group reorganisation scheme prior to the Company's listing of shares, at no time during the year was the Company or any of the companies comprising the Group a party to any arrangement to enable the Company's directors or their associates to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance in relation to the Group's business to which the Company or any of the companies comprising the Group was a party and in which any of the Company's directors or members of its management had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

As at 31st March, 2000, the Company had no notice of any interests to be recorded under Section 16(1) of the SDI Ordinance as the Company was not listed on the GEM of the Stock Exchange as at that date.

As at 20th April, 2000, according to the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance, those shareholders (other than those interests of directors disclosed above) having an interest of 10% or more of the issued share capital of the Company are as follows:

Name	Number of Shares	Total number of Shares	Notes
VSC BVI — directly	278,000,000		
— indirect deemed interest through TN	245,760,000	523,760,000	1
VSC — indirectly through VSC BVI	278,000,000		
— indirect deemed interest through TN	245,760,000	523,760,000	1 & 2
Huge Top — directly	159,811,344		
— indirectly through VSC BVI	278,000,000		
— indirect deemed interest through TN	245,760,000	683,571,344	1,2 & 3

Report of the Directors

(Amounts expressed in Hong Kong dollars)

Name	Number of Shares	Total number of Shares	Notes
TN — directly	245,760,000	245,760,000	4
Mr. Leroy Lin-Yuen Kung — indirectly through Grand Bridge	204,800,000	204,800,000	5
Galaface Limited — indirectly through Grand Bridge	204,800,000	204,800,000	5
Asian Gold Associates Limited — indirectly through Grand Bridge	204,800,000	204,800,000	5
iMerchants Group Limited — indirectly through Grand Bridge	204,800,000	204,800,000	5
Grand Bridge Enterprises Limited	204,800,000	204,800,000	5

Notes:

1. VSC BVI owns 54% of the issued share capital of TN and is deemed to be interested in the 245,760,000 Shares held by TN. VSC BVI directly owns 278,000,000 Shares. VSC BVI is therefore interested in an aggregate of 523,760,000 Shares.
2. VSC owns the entire issued share capital of VSC BVI, VSC is therefore deemed to be interested in an aggregate of 523,760,000 Shares.
3. Huge Top is beneficially interested in approximately 56.04% of the issued share capital of VSC as at 20th April, 2000 and is therefore deemed to be interested in the 245,760,000 Shares held by TN and the 278,000,000 Shares held by VSC BVI. Huge Top also directly owns 159,811,344 Shares. Huge Top is therefore interested in an aggregate of 683,571,344 Shares.
4. All Shares held by TN are, or are intended to be, the subject of options exercisable, in certain circumstances, by designated employees and founding members pursuant to the share option agreements and the revenue option agreements, respectively as disclosed in the Company's prospectus dated 14th April, 2000. The sole purpose of TN is to provide an avenue to motivate the Company's employees and founding members while at the same time not incurring any dilution effect to the public investors of the Company.
5. Grand Bridge Enterprises Limited ("Grand Bridge") directly owns 204,800,000 Shares. Grand Bridge is a wholly-owned subsidiary of iMerchants Group Limited which is a wholly-owned subsidiary of Asian Gold Associates Limited ("AGA"). AGA is a company in which Galaface Limited is entitled to exercise more than one third of its voting power. Galaface Limited is a company owned and controlled by Mr. Leroy Lin-Yuen Kung.

SPONSOR'S INTERESTS

As at 31st March, 2000, neither BNP Prime Peregrine Capital Limited nor its directors or employees or associates, had any beneficial interest in the Company's share capital. Pursuant to an underwriting agreement ("the Underwriting Agreement") entered into among, inter alia, the Company, BNP Prime Peregrine Capital Limited and BNP Prime Peregrine Securities Limited, a fellow subsidiary of BNP Prime

Report of the Directors

(Amounts expressed in Hong Kong dollars)

Peregrine Capital Limited on 14th April, 2000 in connection with the listing of the Company's shares on the GEM of the Stock Exchange, an option ("the Option") was granted by the Company to BNP Prime Peregrine Securities Limited. The Option allows BNP Prime Peregrine Securities Limited or its nominees to subscribe for up to an aggregate of 2,500,000 shares of the Company in lieu of payment of all or part of the underwriting and management fee (but not the selling concessions) payable by the Company to BNP Prime Peregrine Securities Limited under the Underwriting Agreement. The Option was exercised in full by BNP Prime Peregrine Securities Limited on 18th April, 2000, pursuant to which 2,500,000 new shares were issued, representing approximately 0.17% of the issued share capital of the Company as at the date of this report.

Pursuant to the agreement dated 14th April, 2000 entered into between the Company and BNP Prime Peregrine Capital Limited, BNP Prime Peregrine Capital Limited will receive a fee for acting as the Company's retained sponsor for the period from 20th April, 2000 to 30th April, 2003.

CONNECTED TRANSACTIONS

Details of the connected transactions are set out in Note 4 to the accompanying financial statements.

After the group reorganisation and upon the listing of the Company's shares on the GEM of the Stock Exchange, the agreements and arrangements between the Company or its subsidiaries and Van Shung Chong Holdings Limited and its subsidiaries and iMerchants Group Limited and its subsidiaries will constitute continuing connected transactions for the Company (defined under the GEM Listing Rules).

Certain connected transactions constitute non-exempt, continuing connected transactions under Rule 20.26 of the GEM Listing Rules and are subject to the reporting requirements set out in Rule 20.34, the announcement requirement set out in Rule 20.35 and the shareholders' approval requirement set out in Rule 20.36 of the GEM Listing Rules. The Directors consider strict compliance with Rule 20.35 and Rule 20.36 of the GEM Listing Rules to be impractical and not of benefit to the Company's shareholders. As such, the Company has obtained from the GEM Listing Division a waiver from the announcement requirements under Rule 20.35 and the shareholders' approval requirement set out in Rule 20.36 of the GEM Listing Rules in respect of such connected transactions for the period up to 31st March, 2003.

PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year ended 31st March, 2000.

YEAR 2000 ISSUES

The Board of Directors is pleased to announce that all accounting and financial applications of the Group were fully year 2000 compliant and therefore the Year 2000 compliance issue did not create any material adverse impact on the business of all functional areas of the Group.

Report of the Directors

(Amounts expressed in Hong Kong dollars)

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference based upon the guidelines recommended by the Hong Kong Society of Accountants. The primary duties of the audit committee are to review the Company's annual report and accounts, half-year reports and quarterly reports and to provide advice and comments thereon to the Board of Directors. The audit committee is also responsible for reviewing and supervising the Company's financial reporting and internal control procedures. The audit committee comprises two independent non-executive directors, namely Mr. Yeung Kwok Keung and Mr. Philip King-Huen Ma.

CHANGES IN COMPLIANCE OFFICER AND COMPANY SECRETARY

The Board of Directors announces the following position changes of the Company:

1. Mr. Andrew Cho-Fai Yao resigned from the position of Compliance Officer with effect from 26th June, 2000 and Ms. Drina C. Yue was appointed as the Compliance Officer with effect from 26th June, 2000.
2. Mr. Ira Stuart Outerbridge III resigned as secretary in Bermuda of the Company following the listing of the shares of the Company on GEM. Mr. Johnson Sai Hou Ho resigned from the position of Company Secretary with effect from 26th June, 2000 and Ms. Tse Sau Wai was appointed as the Company Secretary with effect from 26th June, 2000.

AUDITORS

The accompanying financial statements were audited by Messrs. Arthur Andersen & Co. A resolution for the re-appointment of Messrs. Arthur Andersen & Co as the Company's auditors for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board of Directors,

ANDREW CHO-FAI YAO

Chairman

Hong Kong,
26th June, 2000

Auditors' Report



ARTHUR ANDERSEN

Arthur Andersen & Co
21st Floor Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

TO THE SHAREHOLDERS OF iSTEELASIA.COM LIMITED

(Incorporated in Bermuda with limited liability)

We have audited the combined financial statements on pages 55 to 72 of iSteelAsia.com Limited and the companies described in Note 1 to the accompanying financial statements (collectively referred to as “the Group”) prepared on the basis set out in Note 1 to the accompanying financial statements, which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The directors of iSteelAsia.com Limited are responsible for the preparation of combined financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those combined financial statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the combined financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the combined financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the combined financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the combined financial statements. We believe that our audit provides a reasonable basis for our opinion.

Auditors' Report

Opinion

In our opinion, the combined financial statements give a true and fair view of the state of affairs of the Group as at 31st March, 2000 and of its loss and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

ARTHUR ANDERSEN & CO

Certified Public Accountants

Hong Kong,
26th June, 2000

Combined Income Statement

For the year ended 31st March, 2000 (Expressed in Hong Kong dollars)

	Note	2000 \$'000	1999 \$'000
Turnover	5	180,074	115,651
Cost of sales		<u>(159,013)</u>	<u>(106,732)</u>
Gross profit		21,061	8,919
Distribution and selling expenses		(5,071)	(2,638)
Research and development expenses		(2,454)	—
General and administrative expenses		<u>(19,270)</u>	<u>(2,982)</u>
(Loss) Profit from operations		(5,734)	3,299
Interest income		<u>91</u>	<u>—</u>
(Loss) Profit before taxation	6	(5,643)	3,299
Taxation	8	<u>(1,169)</u>	<u>(276)</u>
(Loss) Profit attributable to shareholders		(6,812)	3,023
Dividends	9	(9,000)	—
Retained profit, beginning of year		<u>3,430</u>	<u>407</u>
(Accumulated loss) Retained profit, end of year		<u><u>(12,382)</u></u>	<u><u>3,430</u></u>
(Loss) Earnings per share-Basic	10	<u><u>(0.53) cents</u></u>	<u><u>0.24 cents</u></u>

A separate statement of recognised gains and losses is not presented because there were no recognised gains or losses other than the (loss) profit attributable to shareholders.

Combined Balance Sheet

As at 31st March, 2000 (Expressed in Hong Kong dollars)

	Note	2000 \$'000	1999 \$'000
NON-CURRENT ASSETS			
Machinery and equipment	11	268	28
Website development costs	12	<u>3,762</u>	—
Total non-current assets		<u>4,030</u>	<u>28</u>
CURRENT ASSETS			
Inventories	13	4,795	2,298
Trade receivables		25,345	16,736
Deferred share issuance expenditures		18,018	—
Deposits		373	—
Cash and bank deposits		<u>—</u>	<u>20</u>
Total current assets		<u>48,531</u>	<u>19,054</u>
CURRENT LIABILITIES			
Short-term bank borrowings		(25,000)	—
Accruals	4	(2,247)	—
Taxation payable		(1,693)	(524)
Payable for share issuance expenditures		(15,317)	—
Due to a related company	4	(3,882)	(60)
Shareholder loan, current portion	4	<u>(14,803)</u>	<u>(15,068)</u>
Total current liabilities		<u>(62,942)</u>	<u>(15,652)</u>
Net current (liabilities) assets		<u>(14,411)</u>	<u>3,402</u>
Total assets less current liabilities		(10,381)	3,430
NON-CURRENT LIABILITIES			
Shareholder loan, non-current portion	4	<u>(2,000)</u>	—
Net (liabilities) assets		<u>(12,381)</u>	<u>3,430</u>
CAPITAL AND RESERVES			
Share capital	14	1	—
(Accumulated loss) Retained profit		<u>(12,382)</u>	<u>3,430</u>
Shareholders' (deficit) equity		<u>(12,381)</u>	<u>3,430</u>

Refer to Note 18.b for issuance of new shares and consequent increase in shareholders' equity subsequent to 31st March, 2000.

Approved by the Board of Directors on 26th June, 2000:

ANDREW CHO-FAI YAO
Chairman

DRINA C. YUE
Director

Combined Cash Flow Statement

For the year ended 31st March, 2000 (Expressed in Hong Kong dollars)

	Note	2000 \$'000	1999 \$'000
OPERATING ACTIVITIES			
(Loss) Profit before taxation		(5,643)	3,299
Interest income		(91)	—
Depreciation of machinery and equipment		16	8
Amortisation expenses		330	—
Increase in inventories		(2,497)	(824)
Increase in trade receivables		(8,609)	(15,098)
(Increase) Decrease in deposits		(373)	8,990
Increase in accruals		1,618	—
Increase in amount due to a related company		359	—
Net cash outflow from operating activities		<u>(14,890)</u>	<u>(3,625)</u>
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		91	—
Dividends paid		(9,000)	(800)
		<u>(8,909)</u>	<u>(800)</u>
INVESTING ACTIVITIES			
Additions of machinery and equipment		(238)	(1)
Decrease in investment in associated companies		—	480
		<u>(238)</u>	<u>479</u>
Net cash outflow before financing activities		<u>(24,037)</u>	<u>(3,946)</u>
FINANCING ACTIVITIES			
Issue of ordinary shares by companies comprising the Group		1	—
Share issuance expenditures in relation to the placing of the Company's shares in April 2000		(2,701)	—
Increase in shareholder loan		1,717	3,945
		<u>(983)</u>	<u>3,945</u>
DECREASE IN CASH AND CASH EQUIVALENTS		(25,020)	(1)
CASH AND CASH EQUIVALENTS, beginning of year		<u>20</u>	<u>21</u>
CASH AND CASH EQUIVALENTS, end of year	16	<u>(25,000)</u>	<u>20</u>

Notes to the Combined Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

1. GROUP REORGANISATION AND BASIS OF PRESENTATION

iSteelAsia.com Limited (“the Company”) was incorporated in Bermuda on 10th February, 2000 as an exempted company under the Companies Act 1981 of Bermuda. Its shares have been listed on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited since 20th April, 2000.

Pursuant to a group reorganisation scheme in preparation for the listing of the Company’s shares, the Company became the holding company of the companies comprising the group (collectively referred as “the Group”) on 13th April, 2000. The group reorganisation involved companies under common control, and the Company and its subsidiaries (listed in Note 2) resulting from the reorganisation are regarded as a continuing group. Accordingly, the reorganisation has been accounted for on the basis of merger accounting.

VSC (Far East) Limited (“VFE”) and the Steel Trading Division of Van Shung Chong Hong Limited (“STD”) were engaged in steel trading with customers in Southern China, Macau and other Asian and European countries. VFE and Van Shung Chong Hong Limited were wholly owned by Van Shung Chong (B.V.I.) Limited, a substantial shareholder of the Company. As part of the group reorganisation, the assets, liabilities and businesses of VFE and STD were transferred to MetalAsia (Hong Kong) Limited, a wholly-owned subsidiary of the Company, effective from 1st April, 2000 and thereafter VFE and STD ceased their business.

The combined income statements include the results of operations of the Company and its subsidiaries as if the group structure resulting from the aforementioned reorganisation executed on 13th April, 2000 had been in existence throughout the years ended 31st March, 1999 and 2000 or since the dates of incorporation of the respective group companies where these were of a shorter period, as well as the results of operations of VFE and STD. The combined balance sheets of the Group as at 31st March, 1999 and 2000 have been prepared to present the assets and liabilities of the Group as at those dates as if the group structure resulting from the reorganisation had been in existence as at 31st March, 1999 and 2000.

Significant transactions and balances among the companies comprising the Group have been eliminated on combination.

The balance sheet of the Company has not been presented as the Company has no assets and liabilities as at 31st March, 2000.

Notes to the Combined Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. SUBSIDIARIES

Details of the subsidiaries which were acquired pursuant to the group reorganisation described in Note 1 are as follows:

Name	Place of incorporation	Issued and fully paid share capital	Percentage of equity attributable to the Group*	Principal activities
iSteelAsia Holdings Limited	British Virgin Islands	US\$10,000	100%	Investment holding
iSteelAsia (Hong Kong) Limited	Hong Kong	HK\$2	100%	Operation of an e-commerce vertical portal business for online steel trading
iSteelAsia Limited	British Virgin Islands	US\$10	100%	Operation of an e-commerce vertical portal business for online steel trading
MetalAsia Holdings Limited	British Virgin Islands	US\$2,000	100%	Investment holding
MetalAsia (Hong Kong) Limited	Hong Kong	HK\$4	100%	Trading of steel and provision of procurement service

* The shares of iSteelAsia Holdings Limited and MetalAsia Holdings Limited are held directly by the Company pursuant to the group reorganisation described in Note 1. The shares of the other subsidiaries are held indirectly.

3. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. Principal accounting policies are summarised below:

a. Turnover and revenue recognition

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

Notes to the Combined Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

a. Turnover and revenue recognition (Cont'd)

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group. Sales revenue is recognised when the merchandise is shipped and title has passed. Commission from procurement and online steel trading services is recognised upon provision of the services. Interest income is recognised on a time-proportion basis on the principal outstanding and at the rates applicable.

b. Taxation

Individual companies within the Group provide for profits tax on the basis of their profit for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for profits tax purposes.

Deferred taxation is provided under the liability method in respect of significant timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, except when it is considered that no liability will arise in the foreseeable future. Deferred tax assets are not recognised unless the related benefits are expected to crystallise in the foreseeable future.

c. Advertising and promotion costs

The costs of advertising and promotion are expensed in the period in which they are incurred.

d. Staff retirement benefits

The costs of staff retirement benefits are recognised as an expense in the period in which they are incurred.

e. Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to prepare for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are recognised as an expense in the period in which they are incurred.

f. Machinery and equipment and depreciation

Machinery and equipment are stated at cost less accumulated depreciation. Major expenditures on modifications and betterments of machinery and equipment which will result in future economic benefits are capitalised, while expenditures on maintenance and repairs of machinery and equipment are expensed when incurred. Depreciation is provided on a straight-line basis at 20% per annum to write off the cost of each asset over its estimated useful life.

Notes to the Combined Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

f. Machinery and equipment and depreciation (Cont'd)

Gains and losses on disposal of machinery and equipment are recognised in the income statement based on the net disposal proceeds less the then carrying amount of the assets.

g. Website development costs

Costs directly associated with the development of specific websites, which include external direct costs of materials and services consumed in developing or obtaining an internal-use website, are capitalised. The capitalisation of such costs ceases no later than the point at which the websites are substantially completed and ready for their intended purpose. Website development costs are amortised on a straight-line basis over a period of three years, which represents the expected useful life of the website. The Company's Directors review and evaluate the recoverability of the carrying value of the website development costs periodically.

Research and other development costs relating to website development and website maintenance costs are expensed in the period in which they are incurred.

h. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method of costing and includes costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on estimated selling prices in the ordinary course of business less further costs expected to be incurred to disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

i. Operating leases

Operating leases represent those leases under which substantially all the risks and rewards of ownership of the leased assets remain with the lessors. Rental payments under operating leases are recognised as an expense on a straight-line basis over the period of the relevant leases.

Notes to the Combined Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

j. Foreign currency translation

Companies within the Group maintain their books and records in Hong Kong dollars. Transactions in other currencies during the year are translated into Hong Kong dollars at the applicable rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies are translated into Hong Kong dollars at the applicable rates of exchange in effect at the balance sheet date. Exchange gains or losses are dealt with in the income statement.

4. 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.

a. Details of the amount due to a related company are:

	2000	1999
	\$'000	\$'000
Name of related company		
Vantage Godown Company Limited (i)	—	60
iMerchants Limited (ii)	3,882	—
	3,882	60

Notes:

(i) Vantage Godown Company Limited is 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, a beneficial shareholder of the Company.

The amount due to a related company was unsecured, non-interest bearing and without pre-determined repayment terms. Such amount was fully settled subsequent to 31st March, 2000.

Notes to the Combined Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

4. RELATED PARTY TRANSACTIONS (Cont'd)

- b. The operations of the Group were financed by a loan from Van Shung Chong (B.V.I.) Limited, which was unsecured and non-interest bearing. The loan consists of:

	2000 \$'000	1999 \$'000
Name of shareholder		
Van Shung Chong (B.V.I.) Limited	11,125	17,312
Van Shung Chong Hong Limited*	5,678	(2,244)
	16,803	15,068
Less: Current portion	(14,803)	(15,068)
Non-current portion	2,000	—

* Subsequent to 31st March, 2000, the payable to Van Shung Chong Hong Limited was transferred to Van Shung Chong (B.V.I.) Limited.

The shareholder loan arose primarily from utilisation of the banking facilities of Van Shung Chong Hong Limited, a subsidiary of Van Shung Chong (B.V.I.) limited, for the purchase of inventories. Approximately \$14,803,000 of the loan was settled subsequent to 31st March, 2000, while the remaining balance of \$2,000,000 was capitalised subsequent to 31st March, 2000.

- c. Included in accruals were website development and maintenance costs of approximately \$629,000 (1999 — Nil) payable to iMerchants Limited, a subsidiary of iMerchants Group Limited which is a beneficial shareholder of the Company.

Notes to the Combined Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

4. RELATED PARTY TRANSACTIONS (Cont'd)

d. The Group had the following transactions with related parties:

Name of related party/Nature of transaction	2000 \$'000	1999 \$'000
Continuing		
Van Shung Chong Hong Limited (i)		
— Purchases made by the Group	158,473	106,732
— Commission from procurement services earned by the Group	1,189	999
— Administrative fees paid by the Group	360	360
— Rental expenses paid by the Group	624	268
Dongguan Van Shung Chong Steel Products Co., Ltd. (i)		
— Commission from online steel trading services earned by the Group	101	—
iMerchants Limited (ii)		
— Website development costs paid by the Group	4,092	—
— Website maintenance costs paid by the Group	210	—
— Research and development expenses paid by the Group	209	—
Non-continuing		
Van Shung Chong Hong Limited (i)		
— Research and development expenses paid by the Group	2,245	—
— Advertising and promotion expenses paid by the Group	2,889	—
— Purchase of machinery and equipment by the Group	18	—
CFY Enterprises Limited (i)		
— Recruitment fees paid by the Group	1,373	—

Notes:

- (i) Van Shung Chong Hong Limited, Dongguan Van Shung Chong Steel Products Co., Ltd. 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, a beneficial shareholder of the Company.

Notes to the Combined Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

4. RELATED PARTY TRANSACTIONS (Cont'd)

- e. The Group's banking facility was supported by a corporate guarantee provided by the Company and Van Shung Chong Holdings Limited, holding company of Van Shung Chong (B.V.I.) Limited, which is a substantial shareholder of the Company. Following the group reorganisation described in Note 1, all the Group's banking facilities are supported by a corporate guarantee provided by the Company (see Note 17).

5. TURNOVER AND REVENUE

Turnover and revenue comprised:

	2000 \$'000	1999 \$'000
Sales of merchandise	177,503	114,652
Commission from procurement services	1,189	999
Commission from online steel trading services	1,382	—
Total turnover	180,074	115,651
Interest income from overdue accounts receivable	91	—
Total revenue	180,165	115,651

Notes to the Combined Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

6. (LOSS) PROFIT BEFORE TAXATION

(Loss) Profit before taxation was stated after charging and crediting the following:

	2000 \$'000	1999 \$'000
After charging		
Staff costs (including directors' emoluments)	8,206	745
Less: Amount included in research and development expenses	(134)	—
	8,072	745
Provision for bad and doubtful debts	1,686	—
Operating lease rental in respect of rented premises paid to		
— a related company (Note 4.d)	624	268
— others	50	—
Advertising and promotion expenses paid to		
— a related company (Note 4.d)	2,889	—
— others	2,451	—
Depreciation of machinery and equipment	16	8
Amortisation expenses	330	—
Net exchange loss	—	529
Auditors' remuneration	338	80
After crediting		
Interest income from overdue accounts receivable	91	—
Net exchange gain	71	—

Notes to the Combined Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

7. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

a. Details of directors' emoluments were:

	2000 \$'000	1999 \$'000
Fees for executive directors	—	—
Fees for non-executive directors	—	—
Other emoluments for executive directors		
— Basic salaries and allowances	544	65
— Sign-on bonus	778	—
— Bonuses*	300	60
Other emoluments for non-executive directors	—	—
	1,622	125

* The Company's executive directors were entitled to discretionary bonuses.

No director waived any emoluments. During the year ended 31st March, 2000, approximately \$778,000 (1999 — Nil) was paid to a director as an inducement to join the Company. No compensation for loss of office was paid or payable to any director.

Analysis of directors' emoluments by number of directors and emolument ranges was as follows:

	2000	1999
Executive directors		
— Nil to \$1,000,000	3	1

The directors received individual emoluments of approximately \$954,000 (1999 — N/A), \$668,000 (1999 — \$125,000) and Nil (1999 — N/A) during the year ended 31st March, 2000.

Notes to the Combined Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

7. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (Cont'd)

- b. Details of emoluments of the five highest paid individuals (including directors and other employees) were:

	2000 \$'000	1999 \$'000
Basic salaries and allowances	1,364	750
Sign-on bonuses	1,168	—
Bonuses	1,009	60
Contributions to pension scheme	27	25
	3,568	835

Two (1999 — one) of the highest paid individuals were directors of the Company, whose emoluments are included in Note 7.a.

During the year ended 31st March, 2000, approximately \$1,168,000 (1999 — Nil) was paid to two of the five highest paid individuals (including a director and an employee) as an inducement to join the Company.

The emoluments of each of the highest paid individuals fall within the band of Nil to \$1,000,000 during the year ended 31st March, 2000.

8. TAXATION

Taxation charges consist of:

	2000 \$'000	1999 \$'000
Current taxation:		
Hong Kong profits tax	1,169	276

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

There was no significant unprovided deferred taxation as at 31st March, 2000.

Notes to the Combined Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

9. DIVIDENDS

No dividends have been paid or declared by the Company since its incorporation.

During the year, VFE declared and paid interim dividends amounting to \$9,000,000 to its former shareholder prior to the group reorganisation described in Note 1. All dividends were paid out of the accumulated distributable profit of VFE, a wholly-owned subsidiary of Van Shung Chong (B.V.I.) Limited.

10. (LOSS) EARNINGS PER SHARE

The calculation of basic (loss) earnings per share is based on the loss attributable to shareholders of \$6,812,000 (1999 — profit of \$3,023,000) and 1,280,000,000 shares in issue throughout the year, assuming the 1,280,000,000 shares issued pursuant to the group reorganisation described in Note 1 had been outstanding throughout the year.

Diluted (loss) earnings per share for the year ended 31st March, 2000 are not presented because there were no dilutive potential ordinary shares in existence during the year.

11. MACHINERY AND EQUIPMENT

Movements of machinery and equipment were:

	2000 \$'000	1999 \$'000
Cost		
Beginning of year	41	40
Additions	238	1
Transfer from a related company (Note 4.d)	18	—
End of year	297	41
Accumulated depreciation		
Beginning of year	13	5
Provision for the year	16	8
End of year	29	13
Net book value		
End of year	268	28
Beginning of year	28	35

Notes to the Combined Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

12. WEBSITE DEVELOPMENT COSTS

Website development costs consist of:

	2000	1999
	\$'000	\$'000
Cost	4,092	—
Less: Accumulated amortisation	(330)	—
	3,762	—

13. INVENTORIES

Inventories were stated at cost and consisted of steel rebars and rolled steel flat products for trading purposes.

14. SHARE CAPITAL

As at 31st March, 1999 and 2000, the share capital shown on the combined balance sheet represented the aggregate share capital of the companies comprising the Group.

On 10th February, 2000, the Company was incorporated with an authorised share capital of \$100,000, divided into 1,000,000 shares of \$0.10 each, all of which were issued and allotted, nil paid, to Van Shung Chong (B.V.I.) Limited on 21st February, 2000. The changes in share capital of the Company which took place subsequent to 31st March, 2000 and up to the date of approving these financial statements are described in Note 18.

15. PENSION SCHEME

The Group has arranged for its employees a defined contribution provident fund, which is managed by an independent trustee. The Group makes monthly contributions to the scheme with an amount of 5% to 13% of the employees' basic salaries, depending on the grading of the employees; while the employees are required to make monthly contributions at a fixed rate of 0% or 5%, depending on the year of commencement of service. The employees are entitled to receive their entire contribution and the accrued interest thereon; and 100% of the Group's employer contribution and the accrued interest thereon upon retirement or leaving the Group after completing ten years of service, or at a reduced scale of between 30% to 90% after completing three to nine years of service. The forfeited contributions made by the Group and the related accrued interest are used to reduce the Group's employer contribution. For the year ended 31st March, 2000, the aggregate employer's contribution made by (credited to) the Group was approximately \$53,000 (1999 — \$(134,000)), after deduction of forfeited contributions of approximately \$15,000 (1999 — \$232,000). As at 31st March, 2000, there was no material forfeited contribution available to reduce the Group's employer contribution payable in future periods.

Notes to the Combined Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

16. NOTE TO THE COMBINED CASH FLOW STATEMENT

Analysis of cash and cash equivalents:

	2000	1999
	\$'000	\$'000
Cash and bank deposits	—	20
Short-term bank borrowings	(25,000)	—
	(25,000)	20

17. BANKING FACILITIES

As at 31st March, 2000, the Group had a term loan facility of \$25,000,000 (1999 — Nil) which was fully utilised as at the same date.

This facility was supported by corporate guarantees provided by the Company and Van Shung Chong Holdings Limited, holding company of Van Shung Chong (B.V.I.) Limited, which is a beneficial shareholder of the Company. Following the group reorganisation described in Note 1, all the Group's banking facilities are supported by a corporate guarantee provided by the Company.

18. SUBSEQUENT EVENTS

The following significant events took place subsequent to 31st March, 2000:

a. Group reorganisation

On 13th April, 2000, the Group completed a group reorganisation in preparation for the listing of the Company's shares (see Note 1).

b. Share capital and reserves

(i) On 13th April, 2000, pursuant to a resolution passed by Van Shung Chong (B.V.I.) Limited, the then sole shareholder of the Company:

- the authorised share capital of the Company was increased from \$100,000 to \$400,000,000, by the creation of an additional 3,999,000,000 shares of \$0.10 each to rank pari passu with the existing shares in all respects; and
- the Company allotted and issued 1,300,000 new shares of \$0.10 each credited as fully paid and credited as fully paid at par of \$0.10 each the 1,000,000 shares issued nil paid on 21st February, 2000 as consideration and in exchange for the acquisition by the Company of the entire issued share capital of MetalAsia Holdings Limited and iSteelAsia Holdings Limited;

Notes to the Combined Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

18. SUBSEQUENT EVENTS (Cont'd)

b. Share capital and reserves (Cont'd)

- (ii) On 18th April, 2000, the option granted to BNP Prime Peregrine Securities Limited, the Company's underwriter for the placement of 100,000,000 share (Note 18.b (iv)) was exercised and as a result 2,500,000 shares of \$0.10 each were issued at \$1.08 per share to BNP Prime Peregrine Securities Limited in lieu of the underwriting commission and management fee payable to that company.
- (iii) On 19th April, 2000, pursuant to a placing agreement dated 29th March, 2000, 72,000,000 shares of \$0.10 each were issued at \$0.80 per share to Li Ka Shing Foundation Limited, resulting in cash proceeds of \$57,600,000;
- (iv) On 19th April, 2000, 100,000,000 shares of \$0.10 each were issued at \$1.08 per share through a placement, resulting in net cash proceeds of approximately \$79,259,000; and
- (v) Immediately after the aforementioned private placement (Note 18.b (iv)), share premium of \$127,770,000 was capitalised for the issuance of 1,277,700,000 shares of \$0.10 each on a pro-rata basis to the Company's shareholders immediately before the placement.

c. Share options

On 13th April, 2000, the Company approved a share option scheme under which its Board of Directors may, at its discretion, invite any employees of the Company or any of its subsidiaries, 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 prices 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 price 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. No options have been granted up to the date of approving these financial statements.

d. Options granted by TN Development Limited

Pursuant to share option agreements dated 13th April, 2000, TN Development Limited, a shareholder of the Company, may grant employee options to employees of the Group to purchase an aggregate of 143,360,000 shares of the Company. The exercise price is equal to \$0.054 per share. 107,570,000 employee options have been granted up to the date of approving these financial statements.