iSteelAsia.com Limited
亞洲鋼鐵電子交易所有限公司 *

2001/02 年報
Annual Report

* 僅供識別

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

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

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

Contents

Corporate Information

BOARD OF DIRECTORS
Mr. Andrew Cho Fai Yao
Ms. Miriam Che Li Yao
Ms. Drina C. Yue
Ms. Lena Foo*
Mr. Daniel Takuen Shih*
Mr. Ralph David Oppenheimer*
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
ICEA Capital Limited
42nd Floor
Jardine House
1 Connaught 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 Services Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS
Hang Seng Bank Limited
BNP Paribas Hong Kong Branch
The Bank of East Asia Limited
Bank of Communications
Bank of China
The Hongkong and Shanghai Banking Corporation Limited
Citibank, N.A.

STOCK CODE
8080 (Shares)
8356 (Warrants)

China Focus


BEIJING
DALIAN
TIANJIN
QINGDAO
WUXI
SHANGHAI
CHENGDU
CHONGQING
GUANGZHOU

Financial Highlights

The following is a summary of the audited consolidated financial statements of iSteelAsia.com Limited ("the Company") and its subsidiaries (collectively "the Group") for the respective years as hereunder stated.

CONSOLIDATED INCOME STATEMENTS

Amounts expressed in Hong Kong dollars

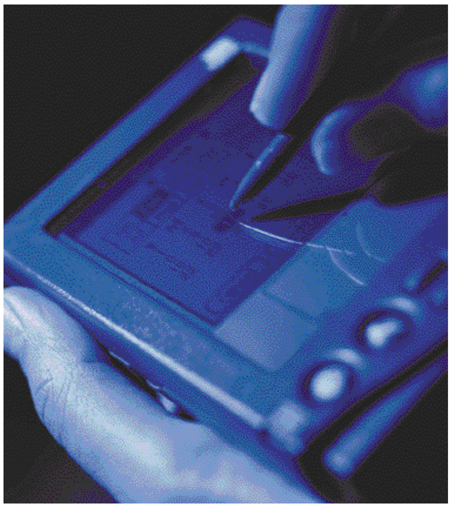
	Year ended 31st March,				
	1998	1999	2000	2001	**2002**
	$'000	$'000	$'000	$'000	**$'000**
Turnover	102,322	115,651	180,074	183,329	**428,415**
(Loss) Profit before taxation	2,460	3,299	(5,643)	(112,034)	**(18,811)**
Taxation	(248)	(276)	(1,169)	(20)	**1,472**
	2,212	3,023	(6,812)	(112,054)	**(17,339)**
Minority interests	—	—	—	—	**(1)**
(Loss) Profit attributable to shareholders	2,212	3,023	(6,812)	(112,054)	**(17,340)**
Dividends (Note 1)	6,800	—	9,000	—	**—**

Notes:

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

   For the year ended 31st March, 1998. a wholly-owned subsidiary of the Company's substantial shareholder declared a dividend of $6,800,000 to its then shareholder which was paid during the year ended 31st March, 1999. For the year ended 31st March, 2000, such subsidiary declared and paid interim dividends amounting to $9,000,000 to its shareholder prior to the group reorganisation. All dividends were paid out of the accumulated distributable profit of that subsidiary.

2. The consolidated income statements of the Group for the years ended 31st March, 1998, 1999, 2000 and 2001 were prepared on the assumption that the current structure of the Group had been in existence throughout those years.



CONSOLIDATED BALANCE SHEETS

Amounts expressed in Hong Kong dollars

	As at 31st March,			
	1999	2000	2001	**2002**
	$'000	$'000	$'000	**$'000**
Furniture and equipment	28	268	3,223	**2,306**
Website development costs	—	3,762	3,788	**2,165**
Long-term investments	—	—	24,974	**28,201**
Current assets	19,054	48,531	66,302	**194,354**
Current liabilities	(15,652)	(62,942)	(74,573)	**(215,660)**
Shareholder loan, non-current portion	—	(2,000)	—	**—**
Minority interests	—	—	—	**(1,300)**
Net assets (liabilities)	3,430	(12,381)	23,714	**10,066**
Capital and reserves:				
Share capital	—	1	145,450	**156,450**
Reserves	—	—	2,700	**(4,608)**
(Accumulated losses) Retained profit	3,430	(12,382)	(124,436)	**(141,776)**
Shareholders' equity (deficit)	3,430	(12,381)	23,714	**10,066**

Note:

1. The consolidated balance sheets of the Group as at 31st March, 1999, 2000 and 2001 were prepared on the assumption that the current structure of the Group had been in existence throughout that year.

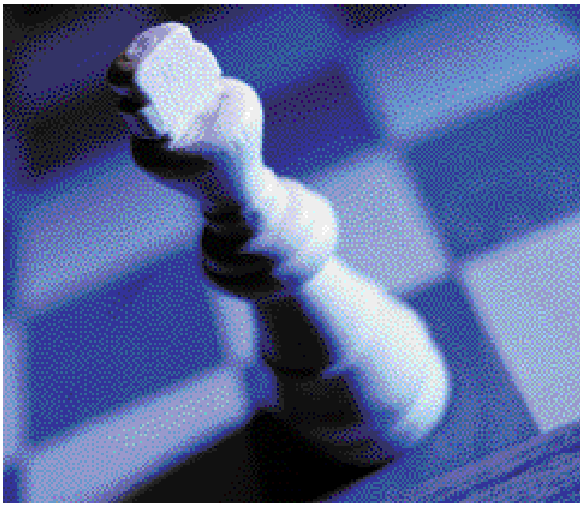
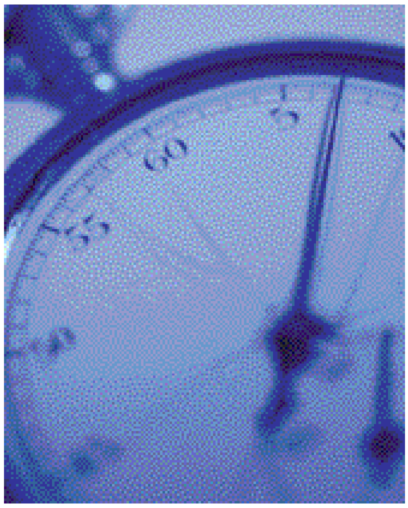
Chairman's Statement

On behalf of the Board of Directors, I am pleased to present the audited consolidated results of iSteelAsia.com Limited ("the Company" or "iSteelAsia") and its subsidiaries (collectively "the Group") for the year ended 31st March, 2002.

Looking back, we have already had our second anniversary for our listing on the GEM Board of The Stock Exchange of Hong Kong Limited. We continue to believe that the steel industry is highly fragmented and inefficient thus providing ample opportunities to perform arbitrages. It is a universal belief that the steel industry value-chain is getting shorter and tighter through the rapid development of technologies and knowledge base. As such, anticipating a changing market, the fundamental vision of iSteelAsia remains to provide value to the participants within the steel industry and we will continue our aim to deliver value to our stakeholders including customers, suppliers, employees and shareholders.

INDUSTRY OVERVIEW

On a macro basis, the markets in this financial year have been the most hostile and volatile in the Group's trading history. The business environment continues to be harsh. In the capital market, the "Dot Com" fever of the late 90's has turned into the "Dot Bomb" fever, turning any operation with a dot com association into the "unfavorable list" of the investment public. In addition, we are all saddened by the tragic "911" event in the fall of 2001. Not only were we saddened by the needless death of human beings, but we were also materially impacted financially through the subsequent slowdown in the capital market and economy in general brought on by this tragedy.


In global steel industry, we witnessed the filings of Chapter 11 by a few major US steel mills. Such filings eventually led to the US government's exercise of Section 201 which imposes punitive tariffs up to 28% on a wide selection of imported steels into the US. This action by the US in turn led to retaliatory actions in the European Union and China. As a result, potential trade disputes with unpredictable regulations and uncertain market were created.

With the underlying steel industry going through a recession, efforts to embrace new technology or "e-enabling" becomes a longer term strategic need, and as such most short term efforts were halted and put on the "back burner". Consequently, a few major players in the steel "B2B" space were adversely affected. Metalsite of the US, whom was considered a pioneer in the independent steel exchange space was eventually bought out by a US technology provider. E-steel had refocused its core strategy from being a pure independent exchange to become an e-enabler for the steel industry. And just recently, Global Steel Exchange (GSX) had announced its closure due to shareholders' unwillingness to further fund the independent steel exchange.

Closer to home, the financial year ended 31st March, 2002 ("FY2002") was a very challenging year for iSteelAsia. During the first quarter of FY2002, steel industry faced the problem of over-capacity and a drastic collapse in steel prices to its lowest in the history. With continuing uncertainty in the US economic outlook and possibility of a worldwide recession, the steel demand remains weak with no immediate recovery insight. Comparing various steel markets in the world, China is the most energetic steel market with ample potential business opportunities. This is driven by the economic growth of China. There has been an influx of business opportunities following China's successful accession to the World Trade Organisation ("WTO") in December, 2001 and its success in securing the right to host the 2008 Olympic Games. Since the launching of Open Door policy by the late Chairman Deng Xiao Ping in the 1980's, China has been able to consistently arouse the interest of the world's economic attention. Foreign investments in Mainland China have been rising in the past 20 years despite some significant domestic political events. With a total population of over 1.2 billion and the continuous improvement in their living standards in China, we believe that the demands of flat steel products will remain rosy in the future.

After China's official accession to the WTO, import duties of certain steel products were being lowered effective from 1st January, 2002. Prices of certain steel products start to pick up and have increased 10%-20% up to April, 2002. We believe that the demand side for high-end steel products remains high in China despite the 201 anti-dumping rules enacted in US recently.

Chairman's Statement

BUSINESS REVIEW

Capitalising on iSteelAsia's "Global Vision, Asian Focus" strategy, iSteelAsia will continue to develop its sales distribution network and its core competence in technology in China with an aim to provide values to the steel participants in the steel industry. The FY2002 financials of iSteelAsia show great improvement in terms of total turnover and total operating costs. However, we are not satisfied with the improvement and we are aiming to provide shareholders with the greatest return as soon as possible. During the year under review, iSteelAsia continues to refine its business scope by focusing its resources to tap the market opportunities in the China steel industry. With strong and long-term "quality service" commitments, iSteelAsia has become a reputable "Value-Added Service Provider" of the steel end-users and suppliers in Asia. iSteelAsia's strategy is to be focused both geographically, and in terms of product offerings (i.e. the type of steel products, and other value-added services), iSteelAsia has established two wholly foreign owned enterprises and many sales offices in China, particularly along the coastal cities like Shanghai, Tianjin, Beijing, and Guangzhou. This coverage has provided a highly effective sales distribution network, which the Group is able to reach a majority of the population in China. China is now the economic engine in the world and we believe the growth potential is overwhelming.

Although the development of the Internet industry is slower than expected, the Group firmly believes that the Internet will provide values to the future of people by improving communications through more efficient flow of information. In this respect, iSteelAsia is committed to assist the players and other service providers in the supply chain of the steel industry to embrace such evolution in the most efficient and painless manner. iSteelAsia is able to operate the platform that will provide valuable information on the buy side and sell side and improve the transparency between buyers and sellers. Additionally, iSteelAsia can capitalise on its expertise in the information technology to assist these players to implement and achieve such goal through enhancing their operational efficiency.

FUTURE OUTLOOK

The Group remains optimistic about the future of the steel industry. Capitalising on the e-commerce capabilities and brandname established over the past two years, iSteelAsia will focus as an e-aggregator and e-distributor for the growing markets in Asia, particularly China. It will continue to expand its distribution coverage in China to promote its core businesses. The macro-economic factors will continue to affect both the supply and demand sides. The anti-dumping rules enacted by various nations and the economic factors will further affect the commodity industry such as the steel market. However, quoting a Chinese term "crisis", which is a combination of two words "danger" and "opportunity", may best describe iSteelAsia's vision to benefit from the opportunities created through "crisis" in addition to growing its day-to-day core businesses. Exploiting on iSteelAsia's Asian expertise, it will continue to focus and expand its value-added services provided "online" as well as "offline". With the development of Internet and technology, the Group will continue its path to profitiability and operate itself as full value-added service provider through organic growth, and if the right opportunity arises, through mergers and acquisitions.

APPRECIATION

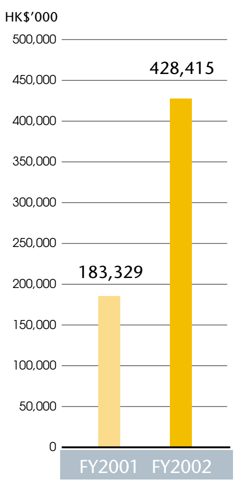
On behalf of the Board of Directors, I would like to express my sincere gratitude to our worldwide customers for their trust and support in our products and services throughout the years. I also wish to take this opportunity to offer my appreciation to our shareholders for their confidence in iSteelAsia, as well as our staff for their dedication and diligence. From such overwhelming commitment, we will continue to pace our efforts towards the long-term development of the Company, and to spearhead the steel industry towards a new era of e-trade.

ANDREW CHO FAI YAO
Chairman

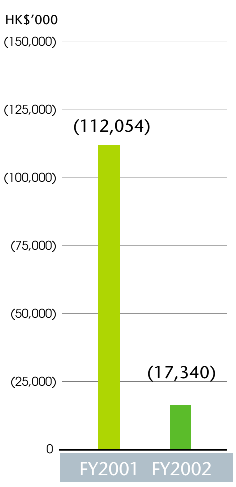
Hong Kong
20th June, 2002

Management Discussion and Analysis

Turnover



Loss attributable to shareholders



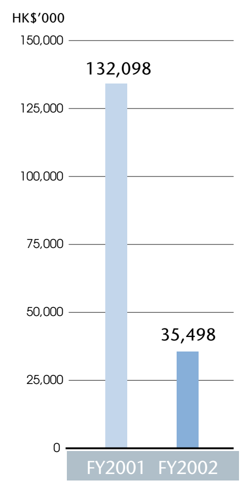
iSteelAsia.com Limited ("the Company" or "iSteelAsia") and its subsidiaries (collectively "the Group") are engaged in the trading and distribution of steel products, provision of procurement services and operation of an e-commerce vertical portal business for the provision of online steel trading and providing e-enabling service for the steel industry. iSteelAsia was listed on GEM of the Stock Exchange in April, 2000. For the year ended 31st March, 2002 ("FY2002"), the Company experienced a very harsh operating environment. Steel prices globally remained depressed at historical lows until December, 2001 and in conjunction with various governmental interventions like the 201 actions in the US and the anti-dumping complaints in the European Union, all these have added uncertainty to the steel market. However, with China's successful accession to the World Trade Organisation ("WTO") in December, 2001 and continuous improvement in the living standards of people in Mainland China, the Group is able to focus its resources to serve this demand growth in Mainland China.

FINANCIAL AND OPERATIONAL REVIEW

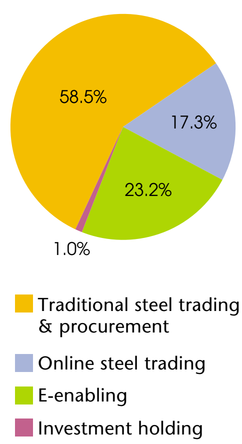
Despite globally depressed steel market, the management of the Company is pleased to report very healthy growth in turnover for FY2002. The turnover for FY2002 has increased over 133% to approximately HK$428 million by comparing the turnover attained for the year ended 31st March, 2001 ("FY2001"). The loss attributable to shareholders for FY2002 was approximately HK$17,340,000, representing over 84% of decrease by comparing the results in FY2001. The total operating cost excluding cost of inventories sold was approximately HK$35,498,000, representing over 73% of improvement over the results in FY2001. The improvement in cost efficiency was mainly due to the successful implementation of profitability awareness program throughout the whole organisation both in Hong Kong and in Mainland China. With this core vision shared by every employee, the Company is able to reduce cost and boost up the

sales through reallocation of resources without any material downsizing. In order to capitalise on the business opportunities in Mainland China, iSteelAsia has regional sales offices in 4 major cities in Mainland China, namely Shanghai, Tianjin, Beijing and Guangzhou. Based on a geographical analysis of the Group's turnover, approximately HK$284,762,000 was derived from the markets in Mainland China, representing approximately 66% of the total turnover for FY2002. Organisationally, iSteelAsia maintains a slim and flexible corporate structure with only 3 reporting layers and approximately 84% of staff is focusing in deriving sales and providing value-added services to customers, resulting in approximately 67% of staff is located in Mainland China to serve our customers' needs. iSteelAsia focused on trading of high value-added products which are primarily supplied for the construction industry as well as for the white goods like household wares and appliances and technological products, like computer casings and enclosure system. The Group envisions the construction and automobile industry will be the growth engines of the core business. For FY2002, majority of the turnover was derived from the traditional steel trading operation. The commission derived from the online steel trading operation was approximately HK$1,608,000, representing only 0.4% of the total turnover for FY2002. The underlying reasons for the low proportion from the online steel trading operation were mainly due to slower than expected development in the Internet industry and various value-added service providers are still on their ways to embrace the full capabilities of the Internet. As such, the Group continues to firmly believe the value propositions that "B2B" exchange will eventually provide actual cost benefits to the steel industry participants. In the meantime, the Group will continue to provide services to the customers in the steel trading industry through both online and offline trading. The Group envisions itself being the "Value-added Service Provider" between the supplier and the end-user, either as e-distributor/e-aggregator, or through offline services. As soon as the customers are ready to move their businesses online, iSteelAsia is there to support them on its trading and Enterprise Resources Planning ("ERP") platform.

Total operating cost excluding cost of inventories sold



Net contributions, adjusted



Management Discussion and Analysis

As a unique characteristic of any trading business, iSteelAsia is a steel trading and distribution company with low assets base. Steel products purchases are primarily financed by short-term trust receipts loan arrangement with banks in Hong Kong. Steel products are mainly imported to Mainland China as high quality raw materials for manufacturing of white goods and other technology products. In most of the cases, payment terms are either cash on delivery or advanced deposits. Invoices issued with payment terms are only granted to customers with whom the Group already had long business relationships and sound financial backings. As at 31st March, 2002, the Group recorded amounts of approximately HK$38.68 million, HK$5.48 million and HK$12.92 million due from Shunde City Dengfeng Steel Trade Co., Ltd. ("Shunde"), Boto Company Limited ("Boto") and Evermore Steel Industrial (Hong Kong) Ltd. ("Evermore"), respectively. The balances from Shunde, Boto and Evermore accounted for approximately 490%, 69% and 164% of the Group's audited net tangible assets as at 31st March, 2002, respectively. Shunde, Boto and Evermore are customers of the Group and third parties independent of any of the directors, chief executives of the Group, the substantial shareholders (within the meaning of the GEM Listing Rules) of the Company and their respective associates (within the meaning of the GEM Listing Rules). Sales transactions with Shunde, Boto and Evermore were conducted in the ordinary course of business of the Group and settlements of the accounts receivable were made in accordance with the payment terms customary to the industry and agreed on an arm's length basis with the customers. No interest was charged on the trading balances as they are still within the payment period agreed with the customers. All three customers gave no collateral under the sales transaction. During the year under review, the Group had no bad debt from these customers and no experiences nor considered that there is material collectibility problem from these customers.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31st March, 2002, the Group's aggregate short-term bank borrowings, comprising trust receipts bank loans and short-term working capital bank loans, were approximately HK$64,335,000 (2001 — HK$24,489,000). The short-term working capital bank loans amounted to HK$11,580,000 with interest rates ranging from 4.35% to 5.84% per annum. Subsequent to 31st March, 2002, a term loan balance of HK$7,800,000 had been fully repaid with no early repayment penalty as agreed by the lending bank, while the remaining bank loan is repayable within one year. As at 31st March, 2002, the gearing ratio (short-term bank borrowings divided by the shareholders' equity) was approximately 6.39 (2001 — 1.03). The increase in gearing ratio was mainly due to considerable expansion in traditional steel trading operation for FY2002. As at 31st March, 2002, the Group had aggregated banking facilities of approximately HK$91,180,000 (2001 — HK$99,423,000) from several banks for overdrafts, loans, and trade financing. Unused facilities as at the same date amounted to approximately HK$8,582,000 (2001 — HK$54,349,000). These facilities were secured by (a) corporate guarantees provided by iSteelAsia and/or (b) the Group's inventories held under trust receipts bank loan arrangement and/or (c) the put option to sell shares in Stemcor Holdings Limited ("Stemcor").

CASH AND CASH EQUIVALENTS

As at 31st March, 2002, the Group's cash and bank deposits amounted to approximately HK$49,058,000 (2001 — HK$28,516,000), of which approximately 17.3% were denominated in Renminbi and deposited with the banks in China.

LONG-TERM INVESTMENTS

Long-term investments comprised equity interests in AcrossAsia Multimedia Limited ("AAM") and Stemcor.

In December, 2000, the Group entered into a share subscription agreement ("the Share Subscription Agreement") with Stemcor whereby the Group agreed to subscribe for certain shares in Stemcor at a consideration of US$3,000,000 ("Tranche A Shares"), and Stemcor agreed to grant two options to the Group to subscribe for additional shares in Stemcor for total consideration of US$5,000,000 ("Tranche B Option") and US$8,000,000 ("Tranche C Option"), respectively. During the year ended 31st March, 2002, both Tranche B and Tranche C Options lapsed and the Group did not subscribe for any additional shares in Stemcor.

Under the Share Subscription Agreement, Stemcor has granted to the Group a put option under which the Group may require Stemcor to repurchase all of the Tranche A Shares subscribed by the Group for US$3,000,000. The put option will be exercisable by the Group no earlier than the date on which the amount of shareholders' equity of Stemcor falls below £15,000,000 as shown in the management accounts of Stemcor from time to time or 30th April, 2002, whichever is earlier, and no later than 31st October, 2002. The Group's benefits of the put option have been pledged as collateral for certain of the Group's banking facilities.

In August, 2001, the Group had acquired approximately 0.23% equity interest in AAM at a consideration of approximately HK$22,550,000 which had been satisfied in full by the issue and allotment of the Company's ordinary shares. As at 31st March, 2002, the investment in AAM was approximately HK$3,998,000 after a deficit on revaluation of such investment of approximately HK$18,552,000. The Directors believe that the acquisition is the first step of forming a strategic relationship with a player of good connection in the region. Since both the Company and AAM are involved in Internet related business, it is the Company's strategy to more fully capitalise such strategic relationship with AAM and its associated companies to capture the business opportunities in the region which aligns with the business objectives of the Company as stated in the Company's prospectus dated 14th April, 2000.

FOREIGN CURRENCY EXPOSURE

The foreign currency exposure of the Group is mainly driven by its business operations. The sales receipts are collected in Renminbi, United States dollars and Hong Kong dollars depending on the locations of the customers. On the other hand, the steel products purchases are mainly denominated in United States dollars. Therefore, with a minimal fluctuation in exchange rates between United States dollars with Renminbi and Hong Kong dollars, the Group considers the foreign currency exposure is minimal for FY2002. The Group will continue to exert efforts in managing its potential currency risk profile in the future.

Management Discussion and Analysis

USE OF PROCEEDS

On 20th April, 2000, the Company's shares were successfully listed on GEM of the Stock Exchange and net proceeds of approximately HK$79 million were 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 Group is pleased to report that the use of proceeds is generally in line with the scope as laid down in the Company's prospectus dated 14th April, 2000 as below.

	Original planned*	**Amount utilised up to 31st March, 2002**
	HK$'000	HK$'000
Acquisitions of interests in value-added information and service provider(s), funding start-up and on-going operating costs and the development of a country specific website	21,859	24,279
Engagement of outside consultants and/or financing internal activities to conduct market research to formulate, revamp and refine its business strategy and to investigate the possibility of establishing operations in other countries and to advise the Group in relation to customer relationship management and in relation to the development and enhancement of the Group's website	15,500	16,176
Marketing and promotional activities to build a strong brand name for iSteelAsia.com and to market benefits of its online trading platform including training programmes and direct mailings and newsletters	26,400	27,083
Acquisitions of content for the Group's websites	15,500	3,495
	79,259	71,033

* Amounts are extracted from the Company's prospectus dated 14th April, 2000 issued in relation to the Company's initial public offering exercise and proposed listing of shares on GEM of the Stock Exchange after adjustments on share issuance expenditures.

Comparison of Business Objectives with Actual Business Progress

From 1st October, 2001 to 31st March, 2002

Business objectives as stated in the prospectus of the Company dated 14th April, 2000	Actual business progress in respect of the six-month period ended 31st March, 2002
Market Research	
1. Continue to assist the operation team in formulating/revamping/refining global business strategy if appropriate	In view of the uncertainties persisted in the global market, and various countries' retaliatory trade sanctions initiated by the US, the Group, given its core competence is the Greater China region, has targeted Mainland China as the main market segment for development
2. Additional research will be conducted to investigate the possibility of establishing operations in individual countries on a worldwide basis	The Group will stay abreast in the developments of various potential markets and will conduct market research on a continuous basis
3. An annual strategic review workshop will be conducted to review the overall operation	In order to grasp the fast changing business environment, more frequent (weekly or monthly) strategic review meetings are being conducted by the management of the Group
4. Continue to explore additional value-added services to be offered to suppliers and customers including, but not limited to, financing arrangements with steel mills in Commonwealth of Independent States	Apart from traditional steel trading operation, the Group is progressively exploring the possibilities to capitalise on its expertise in the software supply vendors and the Internet market to provide value-added services to both suppliers and customers in the steel industry supply chain. The Group will also look for strategic alliances to enhance the Group's capability in this area
Development of Services	
1. Efforts will be made to continue to revamp and/or enhance the functions on the Group's websites as appropriate	In progress, continued efforts will be made to improve the security and user interface
2. Explore the feasibility of launching additional language support on iSteelAsia.com	Deferred due to market response, the website has remained a bilingual (Chinese and English) site which are the most popular universal languages of the steel trading industry in Mainland China

Comparison of Business Objectives with Actual Business Progress

From 1st October, 2001 to 31st March, 2002

3.	Explore new revenue sources to diversify sources of revenue	The Group is progressively exploring its ability to capitalise on its expertise in the software supply vendors area and the Internet market to provide value-added services (i.e. Enterprise Resources Planning implementation services and system integration) to users in the Asia Pacific Region
4.	Continue to acquire content if appropriate	Given the abundance of information available, leasing is economically more efficient than acquiring
5.	Continue to establish mirror sites to enhance performance in focused countries	Hardware performance is now guaranteed through improved network bandwidth with acceptable response time and has avoided the need for physical mirror site
6.	Commence trading of People's Republic of China ("PRC") manufactured steel beams	The Group has established 4 sales offices in Mainland China and has commenced trading relationship with various end-users who purchase locally
7.	Commence trading of slabs and hot-rolled steel coils	The Group has commenced trading of various steel products

Marketing Activities

1.	Continue with those countries that show promise; redeploy/reallocate efforts as appropriate	Customer marketing activities are now focused on Mainland China and the Group has 4 sales offices in China to facilitate these activities
2.	Explore opportunities in other countries on a worldwide basis, if appropriate	The Group will continue to explore the business opportunities in other countries on a worldwide basis
3.	Continue to create brandname awareness through promotional activities such as press conferences, conventions, conferences and personal visits to well-established industry participants in various countries	The Group continues to build the brandname awareness of "iSteelAsia" in Mainland China and various countries across the globe. Management of the Group has participated in various conferences related to the steel and Internet industry. And with the continued closures of other steel trading platforms, the Group has become a handful of survivors
4.	Further diversify the sources of supply to steel mills in Northern China	In progress

5.	Continue to leverage on the excessive demand in South-East Asia market	In progress
6.	Focus effort to capture steel service centres which play a key role in the supply chain since the end-users rely very much on the steel slitting and cutting services provided by these service centres	In progress

Resources Deployment

1.	Continue to focus efforts to assemble and/or expand the domestic team for individual countries	Resources have been redeployed to the PRC and the Group will continue to look for the most efficient/effective business operation model like forming strategic alliance through mergers and acquisitions

Directors' Profile

EXECUTIVE DIRECTORS

MR. ANDREW CHO FAI YAO

Mr. Andrew Cho Fai Yao, aged 36, is the Chairman of the Board. 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 Van Shung Chong Holdings Limited ("VSC"). He currently sits on the board of various business and construction industry associations. Mr. Yao is the brother of Ms. Miriam Che Li Yao.

MS. DRINA C. YUE

Ms. Drina C. Yue, aged 44, is a Director and the Chief Executive 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 is also an inventor of 5 US patents.

MS. MIRIAM CHE LI YAO

Ms. Miriam Che Li Yao, aged 37, 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 the 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.

NON-EXECUTIVE DIRECTORS

MS. LENA FOO

Ms. Lena Foo, aged 36, 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

Mr. Daniel Takuen Shih, aged 50, is a Director. Mr. Shih has over 20 years of experiences in management, sales and marketing in the information technology and industry application areas with multinational corporations in the United States, Japan, Korea, Hong Kong and Southeast Asia. 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 e-commerce, EDI and value-added network services throughout Asia Pacific. Mr. Shih is specialised in the consulting fields of e-commerce, Supply-Chain Management, and Information Technology. He holds a master degree in electrical and computer engineering from University of Cincinnati. Mr. Shih was the chief executive officer of Cap Gemini Ernst & Young North Asia operation.

MR. RALPH DAVID OPPENHEIMER

Mr. Ralph David Oppenheimer, aged 61, is a Director. He joined the Group in March 2001. He is the chairman of Stemcor Holdings Limited ("Stemcor"), a leading international steel trader. He was appointed as a director of Stemcor in 1972 and became chairman and chief executive in 1982. The volume of steel handled by Stemcor since he joined Stemcor has increased considerably. In 2001, the Stemcor group invoiced 6.5 million tonnes of steel products and raw materials. Additionally the Stemcor group sold 1.8 million tonnes of steel products acting as commission agent. The Stemcor group operates as a global provider of specialist services to the steel and metals industries, in areas such as marketing, procurement, shipping and trade finance. Mr. Oppenheimer has a MsC in Economics from the London School of Economics and a BA in Politics, Philosophy & Economics from Oxford University.

Directors' Profile

INDEPENDENT NON-EXECUTIVE DIRECTORS

MR. YEUNG KWOK KEUNG

Mr. Yeung Kwok Keung, aged 54, 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

Mr. Philip King Huen Ma, aged 45, 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. Mr. Ma holds a master of business administration degree from McMaster University in Canada. Mr. Ma is also very active in his community services and serves on many Government committees, including Economic Advisory Committee and Tourism Strategy. Mr. Ma was the Chairman of the Hong Kong Retail Management Association ("HKRMA") from 1996-2000. HKRMA is the major association representing Hong Kong's retail industry with over 600 member companies which employs over 200,000 people.

(Amount expressed in Hong Kong dollars)

The Directors have the pleasure of presenting their annual report together with the audited financial statements of iSteelAsia.com Limited ("the Company") and its subsidiaries (together "the Group") for the year ended 31st March, 2002.

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 and ancillary services.

SEGMENT INFORMATION

An analysis of the Group's turnover and profit/(loss) from operating activities by business segments and geographical segments for the year ended 31st March, 2002 is set out in Note 24 to the accompanying financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st March, 2002, the five largest customers of the Group accounted for approximately 53% of the Group's total turnover while the five largest suppliers of the Group accounted for approximately 72% of the Group's total purchases. In addition, the largest customer of the Group accounted for approximately 20% of the Group's total turnover.

For the year ended 31st March, 2002, Van Shung Chong Hong Limited ("VSCHL"), a subsidiary of Van Shung Chong (B.V.I.) Limited which is a substantial shareholder and an initial management shareholder of the Company as defined in the Rules Governing the Listing of Securities on GEM of the Stock Exchange ("the GEM Listing Rules"), was the largest supplier of the Group and accounted for approximately 50% of the Group's purchases. VSCHL has granted the Group a normal credit period with respect to such purchases and has agreed not to demand repayment of overdue balances but charge interest on the overdue balances based on commercial lending rates.

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, 2002 are set out in the consolidated income statement on page 35 of this annual report.

The Directors do not recommend the payment of a dividend and recommend that the accumulated losses of $141,776,000 as at 31st March, 2002 be carried forward.

SHARE CAPITAL AND EMPLOYEE SHARE OPTIONS

Details of movements in share capital and employee share options of the Company are set out in Notes 20 and 21 respectively, 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.

RESERVES AND ACCUMULATED LOSSES

Movements in reserves of the Group and the Company during the year are set out in Note 22 to the accompanying financial statements. Movements in accumulated losses of the Group during the year are set out in the consolidated income statement on page 35 of this annual report.

As at 31st March, 2002, the Company did not have any distributable reserves.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in Note 13 to the accompanying financial statements.

FURNITURE AND EQUIPMENT

Details of movements in furniture and equipment during the year are set out in Note 10 to the accompanying financial statements.

(Amount expressed in Hong Kong dollars)

BANK BORROWINGS

Particulars of bank borrowings as at 31st March, 2002 are set out in Note 17 to the accompanying financial statements.

PENSION SCHEME

Details of the pension scheme are set out in Note 25 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
Ms. Miriam Che Li Yao
Ms. Drina C. Yue

Non-executive directors
Ms. Lena Foo
Mr. Daniel Takuen Shih
Mr. Ralph David Oppenheimer

Independent non-executive directors
Mr. Yeung Kwok Keung
Mr. Philip King Huen Ma

In accordance with bye-law 87(1) of the Company's Bye-laws, Mr. Daniel Takuen Shih and Mr. Yeung Kwok Keung, retire and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors of the Company has entered into a service contract with the Group 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 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.

(Amount expressed in Hong Kong dollars)

DIRECTORS' INTEREST IN SHARES

As at 31st March, 2002, the interests of the Directors and the chief executives of the Company in the equity or debt securities of the Company or any of its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")) which were notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including interests which they were taken or deemed to have under Section 31 of, or Part 1 of the Schedule to, the SDI Ordinance), or which were required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

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

Name	Type of interest	Attributable interest to the Director	Number of Shares	Total number of Shares
Mr. Andrew Cho Fai Yao	— Corporate interest held by TN (Note 1)	deemed interest (indirectly)	216,867,600	
	— Corporate interest held by Huge Top (Note 2)	more than one-third (indirectly)	159,811,344	
	— Corporate interest held by VSC BVI (Note 3)	through Huge Top (indirectly)	278,000,000	
	— Corporate interest held by Right Action (Note 4)	100% (directly)	102,400,000	757,078,944
Ms. Miriam Che Li Yao	— Corporate interest held by TN (Note 1)	deemed interest (indirectly)	216,867,600	
	— Corporate interest held by Huge Top (Note 2)	more than one-third (indirectly)	159,811,344	
	— Corporate interest held by VSC BVI (Note 3)	through Huge Top (indirectly)	278,000,000	654,678,944
Mr. Philip King Huen Ma	— Corporate interest held by S & S (Note 5)	—	159,324	159,324

Notes:

1. As at 31st March, 2002, TN Development Limited ("TN") owns 216,867,600 Shares. Van Shung Chong (B.V.I.) Limited ("VSC BVI") owns 54% of the issued share capital of TN and Andrew Cho Fai Yao owns 10% of the issued share capital of TN. The board of directors of TN only comprises Andrew Cho Fai Yao and Miriam Che Li Yao. These interests of the aforesaid Directors in the issued Shares of the Company were corporate interests.

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

2. As at 31st March, 2002, Huge Top Industrial Ltd. ("Huge Top") owns 159,811,344 Shares. Andrew Cho Fai Yao directly and indirectly owns more than one-third of the issued share capital of Huge Top. The board of directors of Huge Top only comprises Andrew Cho Fai Yao and Miriam Che Li Yao. These interests of the aforesaid Directors in the issued Shares of the Company were corporate interests.

3. As at 31st March, 2002, VSC BVI owns 278,000,000 Shares and Huge Top owns approximately 57.64% of the issued share capital of Van Shung Chong Holdings Limited ("VSC"). Andrew Cho Fai Yao and Miriam Che Li Yao are directors of VSC. VSC BVI is a wholly-owned subsidiary of VSC. The board of directors of VSC BVI comprises Andrew Cho Fai Yao and Miriam Che Li Yao. These interests of the aforesaid Directors in the issued Shares of the Company were corporate interests.

(Amount expressed in Hong Kong dollars)

4. As at 31st March, 2002, Right Action Offshore Inc. ("Right Action") owns 102,400,000 Shares. Andrew Cho Fai Yao owns the entire issued share capital of Right Action and is also the sole director of that company. These interests were corporate interests in the Company.

5. As at 31st March, 2002, S & S Management Co. Ltd. ("S & S") owns 159,324 Shares. Philip King Huen Ma is deemed to be interested in these 159,324 Shares.

(b) Employee options to purchase Shares from TN:

Name	Shares to be acquired under the employee options	Number of employee options: Beginning of year	Exercised during the year	End of year
Ms. Drina C. Yue (Notes 1 and 2)	30,720,000	30,720,000	(10,240,000)	20,480,000
Mr. Daniel Takuen Shih (Note 1)	2,00,000	2,000,000	—	2,000,000

Notes:

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 be exercised in accordance with (a) above) be exercised up to two-thirds of such Shares.

   (c) During the period starting from 13th April, 2003 to 12th April, 2004, the option may (to the extent not be exercised in accordance with (a) and (b) above) be exercised in full.

2. On March 27, 2002, Ms. Drina C. Yue exercised her options according to Note 1(a) above to purchase 10,240,000 Shares from TN, at an exercise price of $0.054 per Share and as at 31st March, 2002, such Shares had not been transferred to Ms. Drina C. Yue.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Under the terms of the Company's share option scheme approved by the shareholders on 13th April, 2000 ("the Old Scheme"), the Board of Directors of the Company may, at their discretion, invite any full-time employees of the Company or any of the group companies, including any executive directors, to take up options to subscribe for Shares in the Company. The scheme became effective upon the listing of the Company's Shares on 20th April, 2000. Further details of the Old Scheme are set out in the section headed "Employee Share Options" below.

(Amount expressed in Hong Kong dollars)

Details of movements in the share options to subscribe for shares of $0.10 each in the Company granted to and held by certain Directors during the year ended 31st March, 2002 were as follows:

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

No options were granted, exercised, lapsed or cancelled during the year.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Company's Directors or their associates to acquire benefits by means of the acquisition of Shares in, or debt securities (including debentures) of, the Company or any other body corporate.

Other than disclosed above, as at 31st March, 2002, neither the Directors nor their associates, had any interests in any securities of the Company or any or its associated corporations as defined in the SDI Ordinance, and neither the Directors nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

(Amount expressed in Hong Kong dollars)

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in Note 3 to the accompanying financial statements, no contract of significance in relation to the Group's business to which the Company or any of its subsidiaries 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, 2002, according to the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance, those shareholders (other than those interests of Directors disclosed above) having an interest of 10% or more of the issued share capital of the Company were as follows:

Name		**Number of Shares**	**Total number of Shares**	**Notes**
VSC BVI	— directly	278,000,000		
	— indirect deemed interest through TN	216,867,600	494,867,600	1
VSC	— indirectly through VSC BVI	278,000,000		
	— indirect deemed interest through TN	216,867,600	494,867,600	1 & 2
Huge Top	— directly	159,811,344		
	— indirectly through VSC BVI	278,000,000		
	— indirect deemed interest through TN	216,867,600	654,678,944	1, 2 & 3
TN	— directly	216,867,600	216,867,600	4
Mr. Leroy Lin Yuen Kung	— indirectly through Grand Bridge	204,800,000	204,800,000	5
Galaface Limited	— indirectly through Grand Bridge	204,800,000	204,800,000	5
Asian Gold Associates Limited	— indirectly through Grand Bridge	204,800,000	204,800,000	5
iMerchants Group Limited	— indirectly through Grand Bridge	204,800,000	204,800,000	5
Grand Bridge Enterprises Limited	— directly	204,800,000	204,800,000	5

Notes:

1. VSC BVI owns 54% of the share capital of TN and is deemed to be interested in the 216,867,600 Shares held by TN. VSC BVI directly owns 278,000,000 Shares. VSC BVI is therefore directly and indirectly interested in an aggregate of 494,867,600 Shares.

2. VSC owns the entire issued share capital of VSC BVI, VSC is therefore deemed to be interested in an aggregate of 494,867,600 Shares.

3. Huge Top is beneficially interested in approximately 57.64% of the issued share capital of VSC as at 31st March, 2002 and is therefore deemed to be interested in the 216,867,600 Shares held by TN and the 278,000,000 Shares held by VSC BVI. Huge Top also directly owns 159,811,344 Shares. Huge Top is therefore directly and indirectly interested in an aggregate of 654,678,944 Shares.

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

5. Grand Bridge Enterprises Limited ("Grand Bridge") directly owns 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.

EMPLOYEE SHARE OPTIONS

The major terms of the Old Scheme are summarised as follows:

1. The purpose of the Old Scheme was to provide incentives to the participants.

2. The participants of the Old Scheme included any full-time employees or executive directors of the Group.

3. The maximum number of Shares in respect of which options might be granted under the Old Scheme must not exceed 10% of the issued share capital of the Company from time to time. As at the date of the annual report, the number of Shares issuable in respect thereof was 156,450,000 Shares.

4. No participants shall be granted an option which, if exercised in full, would result in such person's maximum entitlement to exceed 25% of the aggregate number of Shares for the time being issued and issuable under the Old Scheme.

5. The exercise period of any option granted under the Old Scheme must not be less than three years and not more than ten years from the date upon the option is accepted in accordance with the Old Scheme but subject to the provisions for early termination contained therein.

6. An option may be exercised in accordance with the terms of the Old Scheme at any time during a period to be notified by the Board of Directors to each grantee.

7. The acceptance of an option, if accepted, must be made within 28 days from the date of grant with a non-refundable payment of $1.00 from the grantee to the Company.

8. The exercise price of an option will be the highest of:

   (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day,

   (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant, and

   (iii) the nominal value of the Shares.

9. The life of the Old Scheme was originally effective until 12th April, 2010. On 10th June, 2002, the Old Scheme was resolved by the shareholders of the Company to have been terminated thereon.

Movements of employee share options pursuant to the Old Scheme during the year ended 31st March, 2002 were as follows:

			Number of share options			
Date of grant	**Exercise period**	**Subscription price per Share**	**Beginning of year** ‘000	**Granted during the year** ‘000	**Lapsed during the year** ‘000	**End of year** ‘000
Directors						
3rd July, 2000	1st October, 2001 to 12th April, 2010	$0.360	4,500	—	—	4,500
7th November, 2000	8th November, 2001 to 12th April, 2010	$0.485	15,000	—	—	15,000
Employees						
3rd July, 2000	1st October, 2001 to 12th April, 2010	$0.360	25,800	—	(8,700)	17,100
7th November, 2000	8th November, 2001 to 12th April, 2010	$0.485	92,300	—	(35,650)	56,650
			137,600	—	(44,350)	93,250

The Old Scheme was terminated on 10th June, 2002. Upon termination of the Old Scheme, no further options will be granted thereunder but in all other respects, the provisions of the Old Scheme shall remain in force and all options granted prior to such termination shall continue to be valid and exercisable in accordance therewith.

During the year under review, the Stock Exchange had revised the statutory requirements under the GEM Listing Rules in relation to share option scheme of a listed issuer. Accordingly, subsequent to the end of year under review, a new share option scheme has been adopted by the Company since 10th June, 2002 ("the New Scheme") to replace the Old Scheme to comply with the current statutory requirements. Up to the date of the annual report, no options have been granted pursuant to the New Scheme.

SPONSOR'S INTERESTS

The Company and BNP Paribas Peregrine Capital Limited (formerly known as BNP Prime Peregrine Capital Limited) have mutually agreed to terminate their sponsorship agreement dated 14th April, 2000 with effect from 16th August, 2001 and ICEA Capital Limited ("ICEA") has been appointed as the new sponsor to the Company from 16th August, 2001.

As at 31st March, 2002 and as updated and notified by ICEA:

1. Neither ICEA nor its associates have any interest in any class of securities of the Company or any other company in the Group (including options or rights to subscribe such securities);

2. No director or employee of ICEA who is involved in providing advice to the Company has any interest in any class of securities of the Company or any other company in the Group (including options or rights to subscribe such securities);

3. Neither ICEA nor its associates expect to have accrued any material benefit as a result of the successful outcome of any transaction, including by way of example, the repayment of material outstanding indebtedness and payment of any underwriting commissions or success fees; and

4. No director or employee of ICEA has a directorship in the Company or any other company in the Group.

Pursuant to the agreement dated 3rd August, 2001 entered into between the Company and ICEA, ICEA would receive a fee for acting as the Company's retained sponsor for the period from 16th August, 2001 to 30th April, 2003.

CONNECTED TRANSACTIONS

Details of related party transactions are set out in Note 3 to the accompanying financial statements.

As disclosed in the paragraphs headed "Continuing Connected Transactions" in the prospectus dated 14th April, 2000 of the Company, the Group has entered into the following continuing connected transactions ("the Ongoing Transactions") as defined under the GEM Listing Rules:—

1. Pursuant to an administrative service agreement dated 13th April, 2000 entered into between iSteelAsia (Hong Kong) Limited ("ISA(HK)"), a wholly-owned subsidiary of the Company, and Van Shung Chong Hong Limited

("VSCH"), a wholly-owned subsidiary of Van Shung Chong (B.V.I.) Limited ("VSC BVI"), a substantial shareholder of the Company, VSCH agreed to provide general office administrative and company secretarial services to ISA (HK) and its affiliates at a fee of $30,000 per calendar month.

2. Under the arrangement of a procurement services agreement dated 13th April, 2000 entered into between Metal Logistics Company Limited (formerly known as MetalAsia (Hong Kong) Limited) ("ML"), a wholly-owned subsidiary of the Company, and VSCH, ML agreed to provide and/or procure any of its subsidiaries, if applicable, to provide sourcing, purchasing and quality control services on steel coils to the VSC Group (as defined below). The service fee is calculated at the rate of US$5.00 per tonne for the first 24,000 tonnes and US$2.00 per tonne in excess of 24,000 tonnes of steel coils sourced. The amount payable by the VSC Group has been capped at $3 million for each of the three years ending 31st March, 2003.

3. Under the arrangement of a steel supply agreement dated 13th April, 2000 entered into between ML and VSCH, the VSC Group (as defined below) agreed to source and supply steel to ML on and subject to the standard terms and conditions of purchase of ML and ML will reimburse the VSC Group at cost (including, but not limited to, insurance, transportation, warehousing and freight costs). For each of the three years ending 31st March 2003, the total purchases made by ML from the VSC Group have been capped at $350 million per annum.

4. Pursuant to a sub-tenancy agreement dated 13th April, 2000 ("Old Sub-tenancy Agreement") entered into between ISA(HK) and CFY Enterprises Limited ("CFY"), an indirect wholly-owned subsidiary of VSC BVI, CFY agreed to sub-let to ISA(HK) an office premise being a portion of 52nd Floor, The Center, 99 Queen's Road Central, Hong Kong with a total saleable area of approximately 3,890 sq. ft. For the term of the Old Sub-tenancy Agreement, the rental payable by ISA(HK) to CFY has been capped at $1.86 million per annum and the portion of the rates, management fees and utilities charges has been capped at $1 million per annum up to 31st March, 2003 or the termination date whichever is earlier. The Old Sub-tenancy Agreement had been terminated with effect from the close of business of 31st May, 2001. Pursuant to a new sub-tenancy agreement dated 21st June, 2001 entered into between ISA(HK) and CFY, CFY agreed to sub-let to ISA(HK) an office premise being a portion of 52nd Floor, The Center, 99 Queen's Road Central, Hong Kong with a total saleable area of approximately 1,088 sq. ft. The rental is $50,000 per month.

5. Pursuant to an outsourcing agreement dated 13th April, 2000 entered into between ISA(HK) and iMerchants Limited ("IM"), a fellow subsidiary of Grand Bridge Enterprises Limited, a substantial shareholder of the Company, IM agreed to provide, inter alia, (i) maintenance services for both the hardware and software used for the businesses carried on by ISA(HK) or its affiliates ("the Businesses") to a required performance level, and (ii) certain specified man-day of enhancement services as may be required for the Businesses carried out by specified grades of personnel which shall include, but not limited to, the provision of electronic commerce, internet or internet related services or solution. For each of the years ending 31st March 2003, the annual amount payable by the Group to IM has been capped at $15 million per annum. The outsourcing agreement had been terminated with effect from 1st January, 2002.

6. Van Shung Chong Holdings Limited and its subsidiaries and its associated companies (collectively "the VSC Group") may from time to time source/procure/distribute/sell steel products via the iSteelAsia.com website. For each of the three years ending 31st March, 2003, the annual sales of the VSC Group transacted via the trading platform at iSteelAsia.com have been capped at $3.5 billion per annum while the commission which may be earned by iSteelAsia.com from the VSC Group has been capped at $52.5 million per annum.

Pursuant to Rule 20.25(3) of the GEM Listing Rules, the administrative service agreement and the new sub-tenancy agreement are exempted from all reporting, announcement and shareholders' approval requirements of the GEM Listing Rules. The procurement services agreement, the steel supply agreement, the Old Sub-tenancy Agreement, the outsourcing agreement and the trading by the VSC Group via the iSteelasia.com website described above 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 dated 9th May, 2000 ("the Waiver") from the announcement requirement 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, and in the case of the Old Sub-tenancy Agreement, up to the expiry of the term thereunder.

Pursuant to the Waiver granted by the Stock Exchange, the Ongoing Transactions, except the administrative service agreement and the new sub-tenancy agreement ("the Connected Transactions") have been reviewed by the independent non-executive directors of the Company. The independent non-executive directors have confirmed that the Connected Transactions have been entered into (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company have also confirmed that the Connected Transactions (a) have received the approval of the Company's Board of Directors; (b) are in accordance with the pricing policy of the Group for those transactions involve the provision of goods or services by the Group; (c) have been entered into in accordance with the relevant agreements governing the transactions; and (d) have not exceeded their respective caps agreed with the Stock Exchange.

Moreover, pursuant to an agreement dated 9th January, 2002 entered into between ISA(HK) and VSCH, ISA(HK) agreed to sub-license an enterprise resources planning computer software for the VSC Group (with functionalities of financial, manufacturing, order management and customer relationship management), of which ISA(HK) has obtained a user license and an authorisation from the independent software supplier for sub-licensing to VSCH in perpetuity. The total consideration under the agreement amounted to $2,180,000 and was payable by three payments in cash. The Directors, including the independent non-executive directors of the Company, are of the view that the transaction is under normal and ordinary course of business of the Company and terms of the agreement are fair and reasonable and in the interest of the Company and its shareholders as a whole.

(Amount expressed in Hong Kong dollars)

COMPETING INTERESTS

Mr. Ralph David Oppenheimer, is a non-executive director of the Company, and is the chairman and chief executive of Stemcor Holdings Limited whose business is principally engaged in the international steel trading. The Directors believe that there is a risk that such business may compete with those of the Group. However, the Directors are also of the view that the invaluable experience of Mr. Oppenheimer in the steel industry will complement the development of the Group's business.

Save as disclosed above, none of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) has an interest in a business which competes or may compete with the business of the Group.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31st March, 2002.

CORPORATE GOVERNANCE

In the opinion of Directors, the Company had complied with the "Board Practices and Procedures" as set out in Rules 5.28 to 5.39 of the GEM Listing Rules throughout the year under review, except that the non-executive Directors are not appointed for a specific term. However, the non-executive Directors are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's Bye-laws.

AUDIT COMMITTEE

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

AUDITORS

The accompanying financial statements were audited by Messrs. Arthur Andersen & Co, which do not seek re-appointment upon their retirement at the forthcoming annual general meeting. A resolution for the appointment of PricewaterhouseCoopers 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
20th June, 2002

ANDERSEN

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

Auditors' Report to the Shareholders of iSTEELASIA.COM LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 35 to 68 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The company's directors are responsible for the preparation of 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 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the company and 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 financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31st March, 2002 and of the loss and cash flows of the group 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,
20th June, 2002.

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31ST MARCH, 2002

(Expressed in Hong Kong dollars)

	Note	**2002** **$'000**	2001 $'000
Turnover			
— Sales		**422,116**	169,737
— Commission and service fees		**4,049**	13,592
— Software sub-licensing fees		**2,180**	—
— Dividend income		**70**	—
	4	**428,415**	183,329
Cost of inventories sold		**(409,665)**	(164,093)
Staff costs		**(16,800)**	(34,308)
Research and development expenses		**(976)**	(24,849)
Marketing and branding expenses		**(207)**	(13,836)
Amortisation of website development costs		**(1,291)**	(3,160)
Write-off and impairment loss of website development costs		**—**	(32,015)
Depreciation of furniture and equipment		**(712)**	(551)
Impairment loss of long-term investments	12	**(1,722)**	—
Other operating expenses		**(13,790)**	(23,379)
Loss from operations		**(16,748)**	(112,862)
Interest income	4	**2,103**	4,309
Interest expense		**(4,166)**	(1,090)
Share issuance expenses written off		**—**	(2,391)
Loss before taxation	5	**(18,811)**	(112,034)
Taxation	7	**1,472**	(20)
Loss before minority interests		**(17,339)**	(112,054)
Minority interests		**(1)**	—
Loss attributable to shareholders	8	**(17,340)**	(112,054)
Accumulated losses, beginning of year		**(124,436)**	(12,382)
Accumulated losses, end of year		**(141,776)**	(124,436)
Loss per share — Basic	9	**(1.14) cents**	(7.75) cents

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 31ST MARCH, 2002

(Expressed in Hong Kong dollars)

	Note	**2002** **$'000**	2001 $'000
Translation adjustments	22	**145**	—
Deficit on revaluation of long-term investments	22	**(18,552)**	—
Net loss not recognised in the consolidated income statement		**(18,407)**	—
Loss attributable to shareholders		**(17,340)**	(112,054)
Total recognised losses		**(35,747)**	(112,054)

BALANCE SHEETS

AS AT 31ST MARCH, 2002

(Expressed in Hong Kong dollars)

		Consolidated		Company	
		2002	2001	**2002**	2001
	Note	**$'000**	$'000	**$'000**	$'000
NON-CURRENT ASSETS					
Furniture and equipment	10	**2,306**	3,223	**—**	—
Website development costs	11	**2,165**	3,788	**—**	—
Long-term investments	12	**28,201**	24,974	**3,998**	—
Investment in subsidiaries	13	**—**	—	**2,225**	15,030
Total non-current assets		**32,672**	31,985	**6,223**	15,030
CURRENT ASSETS					
Inventories	14	**63,511**	8,997	**—**	—
Prepayments and deposits		**9,344**	1,173	**—**	4
Trade and bills receivable	15	**72,441**	27,616	**—**	—
Cash and bank deposits	16	**49,058**	28,516	**83**	8,567
Total current assets		**194,354**	66,302	**83**	8,571
CURRENT LIABILITIES					
Short-term bank borrowings	17	**(64,335)**	(24,489)	**—**	—
Trade and bills payable	18	**(336)**	(10,374)	**—**	—
Due to related companies	3	**(140,031)**	(23,930)	**—**	—
Other payables		**(5,558)**	(7,294)	**—**	—
Accruals		**(3,289)**	(3,488)	**—**	(111)
Receipts in advance		**(2,111)**	(3,305)	**—**	—
Taxation payable		**—**	(1,693)	**—**	—
Total current liabilities		**(215,660)**	(74,573)	**—**	(111)
Net current (liabilities) assets		**(21,306)**	(8,271)	**83**	8,460
Total assets less current liabilities		**11,366**	23,714	**6,306**	23,490
MINORITY INTERESTS		**(1,300)**	—	**—**	—
Net assets		**10,066**	23,714	**6,306**	23,490
Represented by:					
SHARE CAPITAL	20	**156,450**	145,450	**156,450**	145,450
RESERVES	22	**(4,608)**	2,700	**(7,453)**	—
ACCUMULATED LOSSES		**(141,776)**	(124,436)	**(142,691)**	(121,960)
Shareholders' equity		**10,066**	23,714	**6,306**	23,490

Approved by the Board of Directors on 20th June, 2002:

ANDREW CHO FAI YAO
Chairman

DRINA C. YUE
Director

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31ST MARCH, 2002

(Expressed in Hong Kong dollars)

	2002 $'000	2001 $'000
OPERATING ACTIVITIES		
Loss before taxation	**(18,811)**	(112,034)
Interest income	**(2,103)**	(4,309)
Interest expense	**4,166**	1,090
Dividend income	**(70)**	—
Depreciation of furniture and equipment	**712**	551
Amortisation of website development costs	**1,291**	3,160
Write-off and impairment loss of website development costs	**—**	32,015
Impairment loss of long-term investments	**1,722**	—
Share issuance expenses written off	**—**	2,391
Loss on disposal of furniture and equipment	**148**	—
Increase in inventories	**(54,514)**	(4,202)
Increase in prepayments and deposits	**(8,171)**	(800)
Increase in trade and bills receivable	**(44,825)**	(2,271)
(Decrease) Increase in trade and bills payable	**(10,038)**	10,374
Increase in amounts due to related companies	**116,101**	20,048
(Decrease) Increase in other payables	**(1,736)**	7,294
Increase in accruals	**147**	1,241
(Decrease) Increase in receipts in advance	**(1,194)**	3,305
Net cash outflow from operating activities	**(17,175)**	(42,147)
TAXATION		
Mainland China enterprise income tax paid	**(221)**	(20)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		
Interest received	**2,103**	4,309
Interest paid	**(4,166)**	(1,090)
Dividend received	**70**	—
	(1,993)	3,219
INVESTING ACTIVITIES		
Additions of furniture and equipment	**(105)**	(3,506)
Proceeds from disposal of furniture and equipment	**162**	—
Additions of website development costs	**(14)**	(35,201)
Increase in long-term investments	**(951)**	(24,974)
	(908)	(63,681)
NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES	**(20,297)**	(102,629)

FOR THE YEAR ENDED 31ST MARCH, 2002

(Expressed in Hong Kong dollars)

	Note	**2002** **$'000**	2001 $'000
FINANCING ACTIVITIES	23		
Issue of shares		**—**	165,600
Share issuance expenses		**(451)**	(23,340)
Issue of shares by a subsidiary		**—**	3,907
New short-term bank loans		**34,980**	—
New trust receipts bank loans		**200,494**	33,221
Repayment of trust receipts bank loans		**(172,228)**	(8,732)
Repayment of short-term bank loans		**(23,400)**	—
Decrease in shareholder loan		**—**	(14,511)
Capital injected by minority shareholders of subsidiaries		**1,299**	—
		40,694	156,145
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**145**	—
Increase in cash and cash equivalents		**20,542**	53,516
CASH AND BANK DEPOSITS, beginning of year		**28,516**	(25,000)
CASH AND BANK DEPOSITS, end of year		**49,058**	28,516

1. REORGANISATION AND OPERATIONS

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

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 for the provision of online steel trading and ancillary services.

2. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants ("HKSA"), accounting principles generally accepted in Hong Kong, and 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 ("the GEM Listing Rules"). Principal accounting policies are summarised below:

a. Basis of presentation

The Company and its subsidiaries ("the Group") have reported a loss attributable to shareholders of approximately $17,340,000 for the year ended 31st March, 2002, and had net current liabilities of approximately $21,306,000 and net assets of approximately $10,066,000 as at 31st March, 2002 respectively. As at 31st March, 2002, the Group had an amount due to Van Shung Chong Hong Limited ("VSCHL"), a related company, of approximately $137,711,000, resulting from purchases made from VSCHL (see Note 3). VSCHL has granted the Group a normal credit period with respect to such purchases and has agreed not to demand repayment of overdue balances but charge interest on the overdue balances based on commercial lending rates.

The Group believes that VSCHL will continue to be the Group's major supplier and will provide credit in respect of the Group's future purchases from VSCHL (see Note 3) and that its future operations will be successful. Accordingly, the financial statements have been prepared on a going concern basis.

b. Basis of measurement

The financial statements are prepared on the historical cost basis, except for long-term investments which are carried at fair value (see Note 2.o).

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

c. Adoption of new/revised Statements of Standard Accounting Practice

Effective from 1st April, 2001, the Group has adopted, for the first time, the following SSAPs issued by the HKSA:

SSAP 9 (revised)	Events after the balance sheet date
SSAP 14 (revised)	Leases
SSAP 26	Segment reporting
SSAP 28	Provisions, contingent liabilities and contingent assets
SSAP 29	Intangible assets
SSAP 30	Business combinations
SSAP 31	Impairment of assets
SSAP 32	Consolidated financial statements and accounting for investments in subsidiaries

The Group has disclosed segment information in Note 24 to the financial statements so as to comply with SSAP 26. Except for disclosing segment information, the adoption of the aforementioned new/revised SSAPs had no material effect on amounts reported in the prior year.

In addition to the adoption of the above standards, the Group has adopted the consequential changes made to SSAP 17 — Property, plant and equipment and SSAP 18 — Revenue. The consequential changes made to these SSAPs do not have a material effect on the financial statements of the Group.

d. Basis of consolidation

The consolidated financial statements include the accounts of the Group. Results of subsidiaries acquired or disposed of during the year are included in the consolidated financial statements from or to their effective dates of acquisition or disposal. Significant intra-group transactions and balances have been eliminated on consolidation.

e. Subsidiaries

A subsidiary is a company over which the Company can exercise control, which is normally evidenced when the Company has power to govern its financial and operating policies so as to obtain benefits from its activities. In the Company's financial statements, investment in subsidiaries is stated at cost less any provision for impairment in value, while income from subsidiaries is recorded to the extent of dividends received and receivable.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

f. Contractual joint ventures

A contractual joint venture is an entity established between the Group and one or more other parties for a pre-determined period of time, with the rights and obligations of the joint venture partners being governed by a contract. If the Group is able to control and govern the financial and operating policies of the contractual joint venture so as to obtain benefits from its activities, such joint venture is considered as a de facto subsidiary and is accounted for as such.

g. Turnover and revenue recognition

Turnover represents (i) the net invoiced value of merchandise sold after allowances for returns and discounts, (ii) commission from procurement and online steel trading services, (iii) software sub-licensing fees and (iv) dividend income from long-term investment.

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 when the services are rendered. Software sub-licensing fees are recognised when the fees become due and receivable. Interest income is recognised on a time-proportion basis that takes into account the effective yield on the assets. Dividend income is recognised when the right to receive payment is established.

Advance payments received from customers prior to delivery of merchandise and provision of services are recorded as receipts in advance.

h. 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, at the current tax rate, 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.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

i. Research and development expenditures

Research expenditures are written off as incurred. Development expenditures are written off as incurred except for those incurred for specific projects which are deferred where recoverability can be foreseen with reasonable assurance and which comply with the following criteria: (i) the product or process is clearly defined and the costs attributable to the product or process can be separately identified and measured reliably; (ii) the technical feasibility of the product or process can be demonstrated; (iii) there is an intention to produce and market, or use, the product or process; (iv) the existence of a market for the product or process or, if it is to be used internally rather than sold, its usefulness can be demonstrated; and (v) adequate resources exist, or their availability can be demonstrated, to complete the project and market or use the product or process. Capitalised development expenditures are amortised on a straight-line basis over the period in which the related products or process are expected to be sold or used.

j. Marketing and branding costs

Costs of marketing and branding are expensed as incurred.

k. Employee retirement benefits

Costs of employee retirement benefits are recognised as an expense in the period in which the employees' services are rendered.

l. 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 at rates based on the actual cost of the specific borrowings. All other borrowing costs are recognised as an expense in the period in which they are incurred.

m. Furniture and equipment and depreciation

Furniture and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Major expenditures on modifications and betterments of furniture and equipment which will increase their future economic benefits are capitalised, while expenditures on repairs and maintenance 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.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

m. **Furniture and equipment and depreciation** (Cont'd)

The depreciation methods and useful lives are reviewed periodically to ensure that the methods and rates of depreciation are consistent with the expected pattern of economic benefits from furniture and equipment.

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

n. **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 and management review and evaluate the recoverability of the carrying value of website development costs periodically by reference to certain external factors, including, but not limited to, anticipated future revenue to be generated from the website and changes in technology.

Research and other development costs relating to website development and website maintenance costs are expensed as incurred.

o. **Long-term investments**

Long-term investments in listed and unlisted securities are stated at fair value, which is generally the quoted market value for listed securities. Gains or losses on such investments are recognised directly in long-term investment revaluation reserve, part of shareholders' equity, until the investments are sold or otherwise disposed of, or until the investments are determined to be impaired, at which time the cumulative gain or loss is accounted for in the income statement.

Income from long-term investments is accounted for to the extent of dividends received or receivable.

Upon disposal of long-term investments, any profit and loss, including any amount previously held in the long-term investment revaluation reserve in respect of those investments, is accounted for in the income statement.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

p. 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 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.

q. Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss representing the difference between the carrying amount and the recoverable amount of an asset is recognised in the income statement. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the cost of disposal, while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

Reversal of an impairment loss of an asset recognised in prior years is recorded when there is an indication that the impairment loss recognised for the asset no longer exists or has decreased. The reversal is recorded in the income statement.

r. 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.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

s. Foreign currency translation

Individual companies within the Group maintain their books and records in the primary currencies of their respective operations ("functional currencies"). In the accounts of the individual companies, transactions in other currencies during the year are translated into the functional currencies at the applicable rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies are translated into the functional currencies at the applicable rates of exchange in effect at the balance sheet date. Exchange gains or losses are dealt with in the income statement in the period in which they arise.

The Group prepares consolidated financial statements in Hong Kong dollars. For the purpose of consolidation, all assets and liabilities of subsidiaries with functional currencies other than Hong Kong dollars are translated into Hong Kong dollars at the applicable rates of exchange in effect at the balance sheet date, and all income and expense items at the average applicable exchange rates during the year. Exchange differences arising from such translation are dealt with as movements of cumulative translation adjustments.

t. Provisions and contingencies

A provision is recognised when there is a present obligation, legal or constructive, as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed regularly and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

u. Subsequent events

Post-year-end events that provide additional information about the financial position at the balance sheet date or those that indicate the going concern assumption is not appropriate ("adjusting events") are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

v. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles in Hong Kong requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

3. 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. The Group purchased inventories of approximately $231,402,000 (2001 — $118,756,000) from Van Shung Chong Hong Limited ("VSCHL"), a related company, during the year ended 31st March, 2002 and had an outstanding payable to VSCHL of approximately $137,711,000 as at that date (2001 — $17,087,000) of which approximately $80,927,000 (2001 — $14,031,000) was overdue. VSCHL has granted the Group a normal credit period with respect to such purchases and has agreed not to demand repayment of overdue balances but charge interest on the overdue balances based on commercial lending rates.

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

Name of related party/Nature of transaction	**2002 $'000**	2001 $'000
Van Shung Chong Hong Limited (i)		
— Purchases made by the Group (Note 3.a)	**231,402**	118,756
— Commission from procurement services earned by the Group	**1,406**	1,373
— Software sub-licensing fees earned by the Group	**2,180**	—
— Interest charged to the Group (Note 3.a)	**1,336**	923
— Administrative fees charged to the Group	**360**	360
CFY Enterprises Limited (i)		
— Rental expenses charged to the Group	**810**	1,860
— Rates, management fees and utilities charged to the Group	**171**	464
iMerchants Limited (ii)		
— Website development costs charged to the Group	**—**	950
— Website maintenance costs charged to the Group	**1,264**	7,588

Notes:

(i) Van Shung Chong Hong Limited and CFY Enterprises Limited are wholly-owned and controlled by Van Shung Chong (B.V.I.) Limited, a substantial shareholder of the Company.

(ii) iMerchants Limited is a subsidiary of iMerchants Group Limited, the holding company of a substantial shareholder of the Company.

3. RELATED PARTY TRANSACTIONS (Cont'd)

c. Details of amounts due to related companies are as follows:

Name of related company	**2002** **$'000**	2001 $'000
Van Shung Chong Hong Limited (i)	**137,711**	17,087
iMerchants Limited (ii)	**2,320**	6,843
	140,031	23,930

Notes:

(i) The amount due to Van Shung Chong Hong Limited arose primarily from the purchase of inventories (see Note 3.a).

(ii) The amount due to iMerchants Limited arose from the website development and maintenance services provided.

4. TURNOVER AND REVENUE

Analysis of turnover and revenue in the consolidated income statement is as follows:

	2002 **$'000**	2001 $'000
Sales of merchandise	**422,116**	169,737
Commission from procurement services	**2,441**	4,305
Commission from online steel trading services	**1,608**	7,379
Software sub-licensing fees	**2,180**	—
Service fees	**—**	1,908
Dividend income	**70**	—
Total turnover	**428,415**	183,329
Interest income	**2,103**	4,309
Total revenue	**430,518**	187,638

Sales to the top five customers accounted for approximately 53% (2001 — 79%) of the Group's turnover for the year ended 31st March, 2002.

5. LOSS BEFORE TAXATION

Loss before taxation in the consolidated income statement was determined after charging and crediting the following items:

	2002	2001
	$'000	$'000
After charging —		
Provision for bad and doubtful debts	**1,283**	1,142
Interest expense		
— bank loans wholly repayable within one year	**2,830**	167
— amount due to a related company (Note 3.b)	**1,336**	923
Operating lease rental in respect of premises paid to		
— a related company (Note 3.b)	**810**	1,860
— others	**845**	531
Loss on disposal of furniture and equipment	**148**	—
Auditors' remuneration	**405**	500
Net exchange loss	**27**	—
After crediting —		
Dividend income from investment in unlisted securities	**70**	—
Interest income		
— bank deposits	**1,309**	3,332
— overdue trade receivables	**794**	977
Net exchange gain	**—**	9

6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

a. Details of directors' emoluments are:

	2002	2001
	$'000	$'000
Fees for executive directors	**—**	—
Fees for non-executive directors	**50**	50
Other emoluments for executive directors		
— Basic salaries and allowances	**3,415**	5,534
— Bonuses*	**—**	780
— Contributions to pension scheme	**24**	15
Other emoluments for non-executive directors	**—**	—
	3,489	6,379

* The executive directors were entitled to discretionary bonuses. No discretionary bonus was paid or payable during the year ended 31st March, 2002 (2001 — $780,000).

No directors waived any emoluments during the year. No incentive payment for joining the Group or compensation for loss of office was paid or payable to any director during the year.

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

	2002	2001
Non-executive directors		
— Nil to $1,000,000	**5**	6
Executive directors		
— $1,000,001 to $1,500,000	**3**	1
— $2,500,001 to $3,000,000	**—**	2
	8	9

During the year, the executive directors received individual emoluments of approximately $1,212,000 (2001 — $2,709,000), $1,187,000 (2001 — $2,600,000) and $1,040,000 (2001 — $1,020,000). Each non-executive director who completed one full year of service received a fee of $10,000 (2001 — $10,000).

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

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

	2002	2001
	$'000	$'000
Basic salaries and allowances	**5,562**	8,723
Sign-on bonuses	**—**	1,170
Bonuses	**—**	780
Contributions to pension scheme	**48**	58
	5,610	10,731

Three (2001 — two) of the five highest paid individuals were directors of the Company, whose emoluments are included in Note 6.a.

During the year, no payment (2001 — $1,170,000) was made to the five highest paid individuals as an inducement to join the Group.

The number of the five highest paid individuals (including directors and employees) whose remuneration falls within the following bands is as follows:

	2002	2001
Nil to $1,000,000	**1**	—
$1,000,001 to $1,500,000	**4**	—
$1,500,001 to $2,000,000	**—**	3
$2,500,001 to $3,000,000	**—**	2
	5	5

7. TAXATION

Taxation in the consolidated income statement consisted of:

	2002	2001
	$'000	$'000
Current taxation		
— Hong Kong profits tax written back	**1,693**	—
— Mainland China enterprise income tax	**(221)**	(20)
	1,472	(20)

The Company is exempted from taxation in Bermuda until 2016.

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

Subsidiaries operating in Mainland China are subject to Mainland China enterprise income tax at the rate of 15% to 33% (2001 — 33%).

8. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The consolidated loss attributable to shareholders included a loss of approximately $20,731,000 (2001 — $121,960,000) dealt with in the financial statements of the Company.

9. LOSS PER SHARE

The calculation of basic loss per share for the year ended 31st March, 2002 is based on the loss attributable to shareholders of approximately $17,340,000 (2001 — $112,054,000) and the weighted average of approximately 1,527,130,000 (2001 — 1,445,430,000) ordinary shares in issue during the year.

No diluted loss per share is presented as the outstanding employee share options were anti-dilutive.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

10. FURNITURE AND EQUIPMENT

Movements of furniture and equipment (consolidated) were:

	2002			2001
	Leasehold improvements $'000	**Furniture and office equipment $'000**	**Total $'000**	Total $'000
Cost				
Beginning of year	**214**	**3,589**	**3,803**	297
Additions	**34**	**71**	**105**	3,506
Disposals	**—**	**(396)**	**(396)**	—
End of year	**248**	**3,264**	**3,512**	3,803
Accumulated depreciation				
Beginning of year	**28**	**552**	**580**	29
Provision for the year	**48**	**664**	**712**	551
Disposals	**—**	**(86)**	**(86)**	—
End of year	**76**	**1,130**	**1,206**	580
Net book value				
End of year	**172**	**2,134**	**2,306**	3,223
Beginning of year	**186**	**3,037**	**3,223**	268

11. WEBSITE DEVELOPMENT COSTS

Movements of website development costs (consolidated) were:

	2002	2001
	$'000	$'000
Cost		
Beginning of year	**33,620**	4,092
Additions	**14**	35,201
Write-off	**(346)**	(5,673)
End of year	**33,288**	33,620
Accumulated amortisation/impairment		
Beginning of year	**29,832**	330
Amortisation	**1,291**	3,160
Impairment loss	**—**	27,100
Write-off	**—**	(758)
End of year	**31,123**	29,832
Net book value		
End of year	**2,165**	3,788
Beginning of year	**3,788**	3,762

12. LONG-TERM INVESTMENTS

Long-term investments consisted of:

	Consolidated		Company	
	2002	2001	**2002**	2001
	$'000	$'000	**$'000**	$'000
Listed shares in Hong Kong (i)				
— At cost	**22,550**	—	**22,550**	—
— Change in fair value	**(18,552)**	—	**(18,552)**	—
— At quoted market value	**3,998**	—	**3,998**	—
Unlisted shares (ii)				
— At cost	**25,925**	24,974	**—**	—
— Impairment loss	**(1,722)**	—	**—**	—
	24,203	24,974	**—**	—
	28,201	24,974	**3,998**	—

Notes:

(i) Long-term investment in listed shares represents investment in 11,423,506 shares in AcrossAsia Multimedia Limited ("AcrossAsia"), a company whose shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. AcrossAsia is principally engaged in the provision of fixed line broadband communication services, cellular communication services and internet enabling services and commerce.

In August 2001, the Company acquired 11,423,506 shares of AcrossAsia for $22,550,000, in exchange for 110,000,000 ordinary shares of the Company issued at $0.205 each.

As at 31st March, 2002, the Company's investment in AcrossAsia was stated at its quoted market value, with a deficit of approximately $18,552,000 included in shareholders' equity as a negative balance in the long-term investment revaluation reserve.

(ii) Long-term investment in unlisted shares represents approximately 3.5% equity interest in Stemcor Holdings Limited ("Stemcor"), a company incorporated in the United Kingdom, which is principally engaged in the trading of steel products and the provision of specialist services to the steel and metals industries.

In December 2000, the Group entered into a share subscription agreement ("the Share Subscription Agreement") with Stemcor whereby the Group agreed to subscribe for certain shares in Stemcor at a consideration of US$3,000,000 ("Tranche A Shares"), and Stemcor agreed to grant two options to the Group to subscribe for additional shares in Stemcor for total consideration of US$5,000,000 ("Tranche B Option") and US$8,000,000 ("Tranche C Option"), respectively. During the year ended 31st March, 2002, both Tranche B and Tranche C Options lapsed and the Group did not subscribe for any additional shares in Stemcor.

Under the Share Subscription Agreement, Stemcor has granted to the Group a put option under which the Group may require Stemcor to repurchase all of the Tranche A Shares subscribed by the Group for US$3,000,000. The put option will be exercisable by the Group no earlier than the date on which the amount of shareholders' equity of Stemcor falls below £15,000,000 as shown in the management accounts of Stemcor from time to time or 30th April, 2002, whichever is earlier, and no later than 31st October, 2002. The Group's benefits of the put option have been pledged as collateral for certain of the Group's banking facilities (see Note 27).

13. OPERATIONS AND SUBSIDIARIES

a. Operations

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 for the provision of online steel trading and ancillary services. The e-commerce vertical portal business is characterised by rapid technological changes, new service development and evolving industry standards. Inherent in the Group's e-commerce vertical portal business are various risks and uncertainties, including limited operating history, history of losses, uncertain profitability and risks associated with the Internet and e-commerce businesses, and the ability of the Group to raise additional capital and financing.

b. Investment in subsidiaries

In the Company's balance sheet, investment in subsidiaries consisted of:

	2002	2001
	$'000	$'000
Unlisted shares, at cost	**3,500**	3,500
Due from subsidiaries	**143,927**	136,012
Due to a subsidiary	**(3,907)**	(3,907)
	143,520	135,605
Less: Provision for impairment in value	**(141,295)**	(120,575)
	2,225	15,030

The amounts due from subsidiaries are unsecured, non-interest bearing and not repayable until the subsidiaries are financially capable to do so. The amount due to a subsidiary is unsecured, non-interest bearing and without pre-determined repayment terms.

The underlying value of the investment in subsidiaries is, in the opinion of the Company's Directors and management, not less than its carrying value as at 31st March, 2002.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

13. OPERATIONS AND SUBSIDIARIES (Cont'd)

b. Investment in subsidiaries (Cont'd)

Details of the principal subsidiaries as at 31st March, 2002 are as follows:

Name	Place of incorporation and operations	Issued and fully paid share capital	Percentage of equity attributable to the Group (i)	Principal activities
Business Across Business Asia Holdings (B.V.I.) Limited	British Virgin Islands	US$1	100%	Investment holding
i-AsiaB2B Group Limited (i)	British Virgin Islands	US$1	100%	Investment holding
iSteelAsia (Hong Kong) Limited	Hong Kong	$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
iSteelAsia (Stemcor) Holdings Limited	British Virgin Islands	US$1	100%	Investment holding
ISA Group Holdings Limited	British Virgin Islands	US$10,000	100%	Investment holding
iSteel Holdings (B.V.I.) Limited	British Virgin Islands	US$1	100%	Investment holding
MetalAsia Holdings Limited	British Virgin Islands	US$2,000	100%	Investment holding
Metal Logistics Company Limited	Hong Kong	$4	100%	Trading of steel and provision of procurement services
Tianjin iSteelAsia International Limited (ii)	Mainland China	US$200,000	100%	Trading of steel

(Amounts expressed in Hong Kong dollars unless otherwise stated)

13. OPERATIONS AND SUBSIDIARIES (Cont'd)

b. **Investment in subsidiaries** (Cont'd)

Name	Place of incorporation and operations	Issued and fully paid share capital	Percentage of equity attributable to the Group (i)	Principal activities
Ya Gang Wang Co. Limited	British Virgin Islands (incorporation)/ Mainland China (operations)	US$1	100%	Investment holding
Yu Tai Steel (Shanghai) Co. Ltd. (ii)	Mainland China	US$200,000	100%	Trading of steel
北京亞鋼科貿有限公司 (iii)	Mainland China	RMB4,000,000	100%	Trading of steel and provision of procurement services
天津市環緯商貿有限公司 (iii)	Mainland China	RMB1,000,000	80%	Trading of steel

Notes:

(i) The shares of i-AsiaB2B Group Limited are held directly by the Company. The shares of the other subsidiaries are held indirectly.

(ii) These are wholly foreign owned enterprises established in Mainland China to operate for periods ranging from 10 to 20 years up to 2011 to 2021.

(iii) These are limited liability companies established in Mainland China to operate for periods ranging from 10 to 20 years up to 2011 to 2021.

None of the subsidiaries had any loan capital in issue at any time during the year ended 31st March, 2002.

14. INVENTORIES

Inventories are stated at cost and consisted of rolled steel flat products for trading purposes. As at 31st March, 2002, no inventory was stated at net realisable value (2001 — Nil).

15. TRADE AND BILLS RECEIVABLE

Trade and bills receivable (consolidated) consisted of:

	2002	2001
	$'000	$'000
Accounts and bills receivable	**73,474**	28,758
Less: Provision for bad and doubtful receivable	**(1,033)**	(1,142)
	72,441	27,616

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

	2002	2001
	$'000	$'000
0 to 90 days	**63,838**	13,490
91 to 180 days	**8,195**	12,569
181 to 270 days	**142**	2,459
271 to 360 days	**300**	240
361 to 450 days	**999**	—
	73,474	28,758

16. CASH AND BANK DEPOSITS

As at 31st March, 2002, approximately $8,506,000 (2001 — Nil) of the Group's cash and bank deposits were denominated in Chinese Renminbi, a currency which is not freely convertible into other currencies.

17. SHORT-TERM BANK BORROWINGS

Short-term bank borrowings (consolidated) consisted of:

	2002	2001
	$'000	$'000
Trust receipts bank loans	**52,755**	24,489
Short-term bank loans	**11,580**	—
	64,335	24,489

As at 31st March, 2002, the short-term bank loans bore interest at rates ranging from 4.35% to 5.84% per annum and were repayable within one year. All short-term bank loans were denominated in US dollars except approximately $3,780,000 (2001 - Nil) which were denominated in Renminbi. Details of the Group's banking facilities are set out in Note 27.

18. TRADE AND BILLS PAYABLE

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

	2002	2001
	$'000	$'000
0 to 90 days	**336**	10,374

19. DEFERRED TAXATION

As at 31st March, 2002, the Group had an unprovided deferred tax asset, primarily representing the tax effect of cumulative tax losses (subject to the approval of the relevant tax authorities), amounting to approximately $11,756,000 (2001 — $10,743,000).

(Amounts expressed in Hong Kong dollars unless otherwise stated)

20. SHARE CAPITAL

Movements were:

	2002		2001	
	Number of shares ‘000	**Nominal value $’000**	Number of shares ‘000	Nominal value $’000
Authorised (ordinary shares of $0.10 each)				
Beginning of year	**4,000,000**	**400,000**	1,000	100
Increase in authorised share capital	**—**	**—**	3,999,000	399,900
End of year	**4,000,000**	**400,000**	4,000,000	400,000
Issued and fully paid (ordinary shares of $0.10 each)				
Beginning of year	**1,454,500**	**145,450**	1,000	100
Issue of shares (i)	**110,000**	**11,000**	175,800	17,580
Capitalisation of share premium	**—**	**—**	1,277,700	127,770
End of year	**1,564,500**	**156,450**	1,454,500	145,450

Note:

(i) During the year ended 31st March, 2002, 110,000,000 ordinary shares of $0.1 each were issued at $0.205 each for the acquisition of 11,423,506 shares in AcrossAsia Multimedia Limited (see Note 12).

21. EMPLOYEE SHARE OPTIONS

As at 31st March, 2002, the Company had a share option scheme ("the Old Scheme") under which its Board of Directors may, at its discretion, invite any employees (including executive directors) of the Company or its subsidiaries to subscribe for shares in the Company, subject to a maximum of 10% of the nominal value of the issued share capital of the Company from time to time, excluding for this purpose any shares issued on the exercise of options granted under the scheme. The subscription price will be determined by the Company's Board of Directors and will not be less than the highest of (i) the nominal value of the shares, (ii) the quoted closing price of the Company's shares on the trade day immediately preceding the date of offer of the options, and (iii) the average of the quoted closing price of the Company's shares on the five trading days immediately preceding the date of offer of the options.

Movements of employee share options during the year ended 31st March, 2002 were:

			Number of shares			
Date of grant	**Exercise period**	**Subscription price per share**	**Beginning of year** '000	**Granted during the year** '000	**Lapsed during the year** '000	**End of year** '000
3rd July, 2000	1st October, 2001 to 12th April, 2010	$0.360	30,300	—	(8,700)	21,600
7th November, 2000	8th November, 2001 to 12th April, 2010	$0.485	107,300	—	(35,650)	71,650
			137,600	—	(44,350)	93,250

Following the amendment of the GEM Listing Rules, on 7th May, 2002, the Company has proposed to adopt a new share option scheme ("the New Scheme") to replace the Old Scheme. The terms of the New Scheme are contained in a circular sent to shareholders of the Company in May 2002. However, all options granted prior to the adoption of the New Scheme shall continue to be exercisable in accordance with the terms of the Old Scheme.

22. RESERVES

Movements were:

	Share premium $'000	Capital reserve $'000	Contributed surplus $'000	Long-term investment revaluation reserve $'000	Cumulative translation adjustments $'000	Total $'000
Consolidated						
As at 31st March, 2000	—	—	—	—	—	—
Capitalisation of shareholder loan by a subsidiary	—	2,299	—	—	—	2,299
Issue of shares by a subsidiary	—	3,900	—	—	—	3,900
Effect of the Reorganisation (Note 30)	—	(229)	—	—	—	(229)
Premium on issue of shares	150,850	—	—	—	—	150,850
Share issuance expenses	(23,080)	(3,270)	—	—	—	(26,350)
Capitalisation of share premium	(127,770)	—	—	—	—	(127,770)
As at 31st March, 2001	—	2,700	—	—	—	2,700
Premium on issue of shares (i)	11,550	—	—	—	—	11,550
Share issuance expenses	(451)	—	—	—	—	(451)
Deficit on revaluation of long-term investments	—	—	—	(18,552)	—	(18,552)
Translation adjustments	—	—	—	—	145	145
As at 31st March, 2002	11,099	2,700	—	(18,552)	145	(4,608)
Company						
As at 31st March, 2000	—	—	—	—	—	—
Effect of the Reorganisation (Note 30)	—	—	3,270	—	—	3,270
Premium on issue of shares	150,850	—	—	—	—	150,850
Share issuance expenses	(23,080)	—	(3,270)	—	—	(26,350)
Capitalisation of share premium	(127,770)	—	—	—	—	(127,770)
As at 31st March, 2001	—	—	—	—	—	—
Premium on issue of shares (i)	11,550	—	—	—	—	11,550
Share issuance expenses	(451)	—	—	—	—	(451)
Deficit on revaluation of long-term investments	—	—	—	(18,552)	—	(18,552)
As at 31st March, 2002	11,099	—	—	(18,552)	—	(7,453)

Note:

(i) In August 2001, the Company issued 110,000,000 ordinary shares with a par value of $0.1 each, at $0.205 per share as consideration for the acquisition of 11,423,506 shares in AcrossAsia Multimedia Limited (see Note 12).

As at 31st March, 2002, the Company had no reserves available for distribution to shareholders.

23. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Analysis of changes in financing is as follows:

	Share capital and share premium $'000	Capital reserve $'000	Share issuance expenses $'000	Short-term bank borrowings $'000	Shareholder loan $'000	Minority interests $'000	Total $'000
As at 1st April, 2000	1	—	(2,701)	25,000	16,803	—	39,103
Issue of shares	165,600	—	—	—	—	—	165,600
Issue of shares and share exchange upon the Reorganisation (Note 30)	230	—	—	—	—	—	230
Capitalisation of shareholder loan	—	2,299	—	—	(2,299)	—	—
Issue of shares by a subsidiary	—	3,900	—	—	—	—	3,900
Effect of the Reorganisation (Note 30)	(1)	(229)	—	—	—	—	(230)
Share issuance expenses							
— settled by cash	—	—	(23,340)	—	—	—	(23,340)
— settled through issue of shares	2,700	—	(2,700)	—	—	—	—
— offset against share premium and capital reserve	(23,080)	(3,270)	26,350	—	—	—	—
— written off	—	—	2,391	—	—	—	2,391
Repayment of short-term bank loans	—	—	—	(25,000)	—	—	(25,000)
New trust receipts bank loans	—	—	—	33,221	—	—	33,221
Repayment of trust receipts bank loans	—	—	—	(8,732)	—	—	(8,732)
Decrease in shareholder loan	—	—	—	—	(14,504)	—	(14,504)
As at 31st March, 2001	145,450	2,700	—	24,489	—	—	172,639
Issue of shares (Note 20.i)	22,550	—	—	—	—	—	22,550
Share issuance expenses	(451)	—	—	—	—	—	(451)
New short-term bank loans	—	—	—	34,980	—	—	34,980
New trust receipts bank loans	—	—	—	200,494	—	—	200,494
Repayment of trust receipts bank loans	—	—	—	(172,228)	—	—	(172,228)
Repayment of short-term bank loans	—	—	—	(23,400)	—	—	(23,400)
Capital injected by minority shareholders of subsidiaries	—	—	—	—	—	1,299	1,299
Share of profit	—	—	—	—	—	1	1
As at 31st March, 2002	167,549	2,700	—	64,335	—	1,300	235,884

24. SEGMENT INFORMATION

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

a. Primary segment

The Group is organised into three major business segments — steel trading, procurement services and investment holding. The steel trading business segment derives revenue from sale of merchandise. The procurement services business segment derives commission income from procurement and online steel trading services and software sub-licensing fee. The investment holding business segment derives revenue from dividend income. An analysis by business segments is as follows:

	Steel trading		Procurement services		Investment holding		Total	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Turnover								
Total turnover	**422,116**	169,737	**6,229**	13,592	**70**	—	**428,415**	183,329
Operating results								
Segment results	**(3,563)**	(8,487)	**(10,454)**	(100,178)	**(1,750)**	(1,877)	**(15,767)**	(110,542)
Unallocated corporate expenses							**(981)**	(2,320)
Loss from operations							**(16,748)**	(112,862)
Interest income							**2,103**	4,309
Interest expense							**(4,166)**	(1,090)
Share issuance expenses written off							**—**	(2,391)
Taxation							**1,472**	(20)
Minority interests							**(1)**	—
Loss attributable to shareholders							**(17,340)**	(112,054)
Other information								
Total assets —								
Segment assets	**142,783**	33,357	**4,629**	6,246	**28,201**	24,974	**175,613**	64,577
Unallocated assets							**51,413**	33,710
							227,026	98,287
Total liabilities —								
Segment liabilities	**207,808**	55,708	**2,320**	6,843	**—**	—	**210,128**	62,551
Unallocated liabilities							**5,532**	12,022
Minority interests							**1,300**	—
							216,960	74,573
Capital expenditures — Segment capital expenditures	**105**	589	**14**	38,118	**23,501**	24,974	**23,620**	63,681
Depreciation and amortisation — Segment depreciation and amortisation	**414**	142	**1,589**	3,569	**—**	—	**2,003**	3,711
Significant non-cash expenditures — Segment non-cash expenditures (other than depreciation and amortisation)	**—**	1,033	**1,283**	32,124	**1,722**	—	**3,005**	33,157

24. SEGMENT INFORMATION (Cont'd)

b. Secondary segment

The Group's activities are conducted predominantly in Hong Kong and Mainland China. Turnover by geographical segments is determined on the basis of the destination of shipment of merchandise, location of service performed for procurement services and software sub-licensing fees, location of sellers for online commission income and location of the long-term investment for dividend income. An analysis by geographical segments is as follows:

	Hong Kong		**Mainland China**		**Others**		**Total**	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Turnover	**139,962**	3,831	**284,762**	169,174	**3,691**	10,324	**428,415**	183,329
(Loss) Profit from operations	**(12,434)**	(64,903)	**3,739**	3,159	**(8,053)**	(51,118)	**(16,748)**	(112,862)
Total assets	**152,237**	67,267	**47,926**	941	**26,863**	30,079	**227,026**	98,287
Capital expenditures	**22,584**	2,922	**71**	583	**965**	60,176	**23,620**	63,681

25. PENSION SCHEME

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme, a defined contribution scheme managed by an independent trustee. Each of the Group and its employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation, subject to a contribution cap of $12,000 per annum. Any additional contributions in excess of $12,000 are voluntary.

As stipulated by rules and regulations in Mainland China, the Group contributes to state-sponsored retirement plans for its employees in Mainland China. The Group contributes approximately 14% to 20% of the basic salaries of its employees, and has no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees.

During the year ended 31st March, 2002, the aggregate amount of employer's contributions made by the Group to the aforementioned schemes was approximately $282,000 (2001 — $225,000).

26. COMMITMENTS

The Group has operating lease commitments in respect of rented premises under non-cancellable operating lease agreements extending to May 2004. The total amount of commitments (consolidated) payable under these agreements is analysed as follows:

	2002	2001
	$'000	$'000
Amounts payable		
— within one year	**946**	533
— between two and five years	**261**	98
	1,207	631

27. BANKING FACILITIES

As at 31st March, 2002, the Group had aggregate banking facilities of approximately $91,180,000 (2001 — $99,423,000) from several banks for overdrafts, loans, and trade financing. Unused facilities as at the same date amounted to approximately $8,582,000 (2001 — $54,349,000). These facilities were secured by:

a. the put option to sell shares in Stemcor Holdings Limited (see Note 12); and

b. corporate guarantees provided by the Company.

Under the Group's banking facilities (some of which have been revised subsequent to 31st March, 2002), the Group has agreed with a bank to comply with certain restrictive financial covenants.

28. CONTINGENT LIABILITIES

As at 31st March, 2002, the Company had provided guarantees of approximately $81,200,000 (2001 — $87,400,000) to banks for banking facilities granted to its subsidiaries.

29. SUBSEQUENT EVENT

Subsequent to 31st March, 2002, on 7th May, 2002, the Company proposed a bonus issue of 312,900,000 warrants to shareholders of the Company on the basis of one warrant for every five ordinary shares of the Company. The warrants entitle the holders to subscribe in cash for ordinary shares of $0.1 each in the Company at a subscription price of $0.1 each (subject to adjustment) and are exercisable between 18th June, 2002 and 17th June, 2005.

30. COMPARATIVE FIGURES

On 13th April, 2000, the Company became the holding company of other companies comprising the Group pursuant to a group reorganisation ("the Reorganisation") which included exchanges of shares. The Reorganisation involved companies under common control, and the Company and its subsidiaries resulting from the Reorganisation are regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which the consolidated financial statements for the year ended 31st March, 2001 have been prepared as if the Company had been the holding company of the other companies comprising the Group throughout the year, rather than from the date on which the Reorganisation was completed.